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THE FREEMAN

IDEAS ON LIBERTY

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by Steven Greenhut

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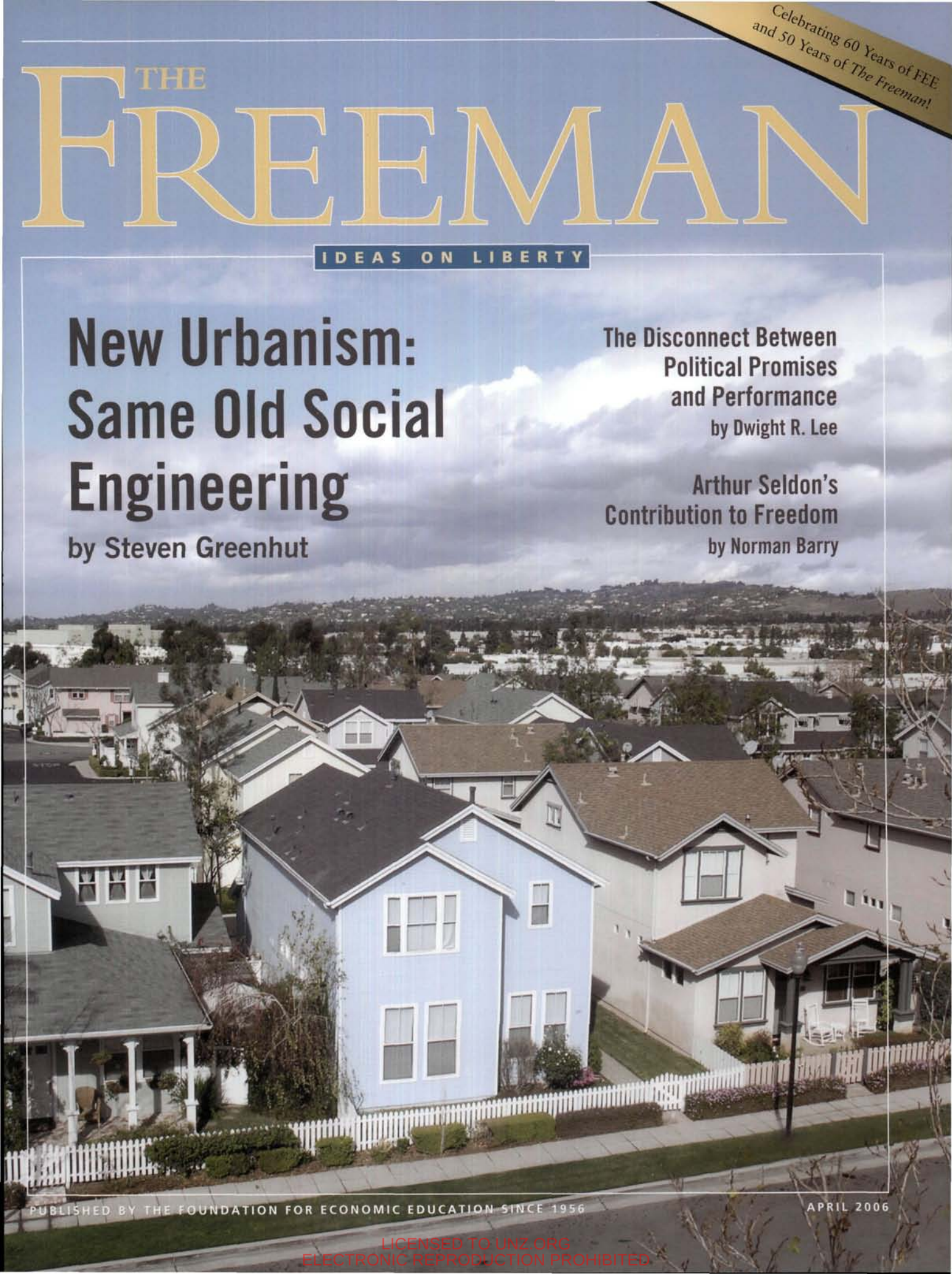
by Dwight R. Lee

Arthur Seldon's Contribution to Freedom
by Norman Barry



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In Memoriam

Edmund A. Opitz
Paul L. Poirot

The Freeman mourns the recent deaths of Edmund A. Opitz and Paul L. Poirot, two extraordinary thinkers who helped build and maintain the intellectual framework of the Foundation for Economic Education.

Dr. Richard M. Ebeling, president of the Foundation for Economic Education, commented, "The success of much of FEE's work during its first fifty years was inseparably connected with the outstanding contributions of Rev. Ed Opitz and Dr. Paul Poirot. They symbolized in everything they did the unique FEE message and method for advancing the freedom philosophy. They tirelessly toiled in the vineyard of liberty in the second half of the 20th century. Tens of thousands of people were permanently influenced by all they did on behalf of the cause of freedom."

THE REV. EDMUND A. OPITZ, 92, died February 13, 2006, in Centerville, Massachusetts.

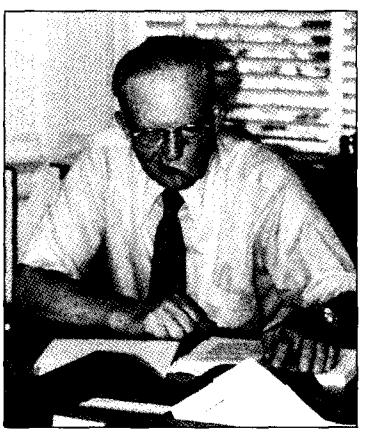
In his 37 years at FEE, Ed was a popular lecturer at seminars in Irvington and around the United States. He was book review editor of *The Freeman* and wrote dozens of book reviews and more than 70 feature articles for the magazine. In 1994 FEE published an anthology of his articles titled *Religion: Foundation of the Free Society*.

An ordained Congregational minister, Rev. Opitz was the founder and coordinator of The Remnant, a fellowship of conservative and libertarian ministers and a founder and secretary of The Nockian Society. His magnum opus, *Religion and Capitalism: Allies, Not Enemies*, was published in 1970 as a Conservative Book Club Selection.

In addition to his prodigious writing and lecturing, Rev. Opitz was a faithful correspondent with dozens of friends of FEE over the years. An Opitz letter was more often than not an elegantly crafted essay that gently brought his erudition to bear on the subject at hand.

He is survived by his two daughters, Elaine and Claudia.

❦



DR. PAUL L. POIROT, 90, editor of *The Freeman* for over 30 years, died February 17, 2006, in Lewisburg, Pennsylvania.

Paul Poirot was born in Illinois farm country and received his bachelor's degree in agriculture from the University of Illinois in 1936 and his Ph.D. in agricultural economics from Cornell University in 1940. Following stints at the Office of Price Administration and as an economist at a feed, seed, and fertilizer cooperative in Ithaca, he joined the staff of FEE in 1949.

Dr. Poirot edited many of the "In Brief" pamphlets that were the primary releases in the first decade of FEE's existence. When FEE began publishing *The Freeman* as a monthly in 1956, Leonard Read tapped Paul Poirot as editor. Dr. Poirot's real work at FEE was largely unseen. Readers saw only the final product of his labors: the books he painstakingly edited and, of course, each finished issue of *The Freeman*. What they did not see was his voluminous correspondence with authors, encouraging the newcomer who showed promise or delicately rejecting an unsuitable manuscript from a seasoned professional. Also unseen was his meticulous oversight of FEE's book service—from editorial negotiations to inventory—and the many details of assuring the smooth functioning of a busy editorial office.

Dr. Poirot is survived by his wife of 58 years, Josephine Coder Nash Poirot; his son and daughter-in-law, Richard and Elizabeth Poirot; two grandchildren, Michael and Danielle; his brother Robert Poirot; and his sister Rebecca Havlicek.

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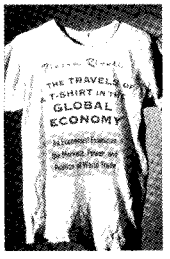

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The Great Austrian Inflation

BY RICHARD M. EBELING

Wars always bring great destruction in their wake. Human lives are lost or left crippled; wealth is consumed to cover the costs of combat; battles and bombs leave accumulated capital in ruins; real and imagined injustices turn men against the existing order of things; and demagogues emerge to play on the frustrations and fears in people's minds.

All these factors were at work during and after World War I. In addition, the "war to end war" resulted in the dismemberment of many of the great empires in central and eastern Europe. This war also brought about the destruction of several national currencies in orgies of paper-money inflations. One such tragic episode was the disintegration of the Austro-Hungarian Empire and the accompanying Great Austrian Inflation in the immediate postwar period.

In the summer of 1914, as clouds of war were forming, Franz Joseph (1830–1916) was completing the 66th year of his reign on the Habsburg throne. During most of his rule Austria-Hungary had basked in the nineteenth-century glow of the classical-liberal epoch. The constitution of 1867, which formally created the Austro-Hungarian "Dual Monarchy," insured every subject in Franz Joseph's domain all the essential personal, political, and economic liberties of a free society.

The Empire encompassed a territory of 415,000 square miles and a total population of over 50 million. The largest linguistic groups in the Empire were the German-speaking and Hungarian populations, each numbering about 10 million. The remaining 30 million were Czechs, Slovaks, Poles, Romanians, Ruthenians, Croats, Serbs, Slovenes, Italians, and a variety of smaller groups of the Balkan region.

But in the closing decades of the nineteenth century, the rising ideologies of socialism and nationalism superseded the declining classical-liberal ideal. Most linguistic and ethnic groups clamored for national autonomy or independence, and longed for economic privileges at the expense of the other members of the Empire. Even if the war had not brought about the disintegration of Austria-Hungary, centrifugal forces were slowly pulling the Empire apart because of the rising tide of political and economic collectivism.

Like all the other European belligerent nations, the Austro-Hungarian government immediately turned to the printing press to cover the rising costs of its military expenditures. At the end of July 1914, just after the war had formally broken out, currency in circulation totaled 3.4 billion crowns. By the end of 1916 it had increased to over 11 billion crowns. And at the end of October 1918, shortly before the end of the war in early November 1918, the currency had expanded to a total of 33.5 billion crowns. From the beginning to the close of the war the Austro-Hungarian money supply in circulation had expanded by 977 percent. A cost-of-living index that had stood at 100 in July 1914 had risen to 1,640 by November 1918.

But the worst of the inflationary and economic disaster was about to begin. Various national groups began breaking away from the Empire, with declarations of independence by Czechoslovakia and Hungary, and the Balkan territories of Slovenia, Croatia, and Bosnia being absorbed into a new Serb-dominated Yugoslavia. The Romanians annexed Transylvania; the region of Galicia became part of a newly independent Poland; and the Italians laid claim to the southern Tyrol.

The last of the Habsburg emperors, Karl, abdicated on November 11, 1918, and a provisional government of the Social Democrats and the Christian Socials declared German-Austria a republic on November 12. Reduced to 32,370 square miles and 6.5 million people—one-third of whom resided in Vienna—the new, smaller Republic of Austria now found itself cut off from the other regions of the former empire as the surrounding

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successor states (as they were called) imposed high tariff barriers and other trade restrictions on the Austrian Republic. In addition border wars broke out between the Austrians and the neighboring Czech and Yugoslavian armies.

Within Austria the various regions imposed internal trade and tariff barriers on other parts of the country, including Vienna. Food and fuel supplies were hoarded by the regions, with blackmarketeers the primary providers of many of the essentials for the citizens of Vienna. Thousands of Viennese would regularly trudge out to the Vienna Woods, chop down the trees, and carry cords of firewood back into the city to keep their homes and apartments warm in the winters of 1919, 1920, and 1921. Hundreds of starving children begged for food at the entrances of Vienna's hotels and restaurants.

The primary reason for the regional protectionism and economic hardship was the policies of the new Austrian government. The Social Democrats imposed artificially low price controls on agricultural products and tried to forcibly requisition food for the cities. By 1921 over half the Austrian government's budget deficit was attributable to food subsidies for city residents and the salaries of a bloated bureaucracy. The Social Democrats also regulated industry and commerce, and imposed higher and higher taxes on the business sector and the shrinking middle class. One newspaper in the early 1920s called Social Democratic fiscal policy in Vienna the "success of the tax vampires."

Printing-Press Fiscal Policy

The Austrian government paid for its expenditures through the printing press. Between March and December 1919 the supply of new Austrian crowns increased from 831.6 million to 12.1 billion. By December 1920 it increased to 30.6 billion; by December 1921, 174.1 billion; by December 1922, 4 trillion; and by the end of 1923, 7.1 trillion. Between 1919 and 1923, Austria's money supply had increased by 14,250 percent.

Prices rose dramatically during this period. The cost-of-living index, which had risen to 1,640 by November 1918, had gone up to 4,922 by January 1920; by January 1921 it had increased to 9,956; in January 1922 it stood at 83,000; and by January 1923 it had shot up to 1,183,600.

The foreign-exchange value of the Austrian crown also reflected the catastrophic depreciation. In January 1919 one dollar could buy 16.1 crowns on the Vienna foreign-exchange market; by May 1923, a dollar traded for 70,800 crowns.

During this period the printing presses worked night and day churning out the currency. At the meeting of the *Verein für Sozialpolitik* (Society for Social Policy) in 1925, Austrian economist Ludwig von Mises told the audience:

> Three years ago a colleague from the German Reich, who is in this hall today, visited Vienna and participated in a discussion with some Viennese economists. . . . Later, as we went home through the still of the night, we heard in the *Herrengasse* [a main street in the center of Vienna] the heavy drone of the Austro-Hungarian Bank's printing presses that were running incessantly, day and night, to produce new bank notes. Throughout the land, a large number of industrial enterprises were idle; others were working part-time; only the printing presses stamping out notes were operating at full speed.

Finally in late 1922 and early 1923 the Great Austrian Inflation was brought to a halt. The Austrian government appealed for help to the League of Nations, which arranged a loan to cover a part of the state's expenditures. But the strings attached to the loan required an end to food subsidies and a 70,000-man cut in the Austrian bureaucracy to reduce government spending. At the same time, the Austrian National Bank was reorganized, with the bylaws partly written by Mises. A gold standard was reestablished in 1925; a new Austrian shilling was issued in place of the depreciated crown; and restrictions were placed on the government's ability to resort to the printing press again.

But, alas, government monetary, fiscal, and regulatory mismanagement prevented real economic recovery before Austria fell into the abyss of Nazi totalitarianism in 1938 and the destruction of World War II.

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Perspective

Patently Unnecessary?

The idea that government should issue patents for inventions is odd on its face. How can someone claim an exclusive right in a "practical application" of nature's principles? Of course, an inventor can have a right to an object. But a right to bar others from using the application embodied in that object? That's hard to accept. Property rights arise out of the finitude of objects. Two people cannot use the same thing at the same time and in the same respect. It is otherwise with ideas. As Thomas Jefferson wrote,

> He who receives an idea from me, receives instruction himself without lessening mine; as he who lights his taper at mine, receives light without darkening me. That ideas should freely spread from one to another over the globe, for the moral and mutual instruction of man, and improvement of his condition, seems to have been peculiarly and benevolently designed by nature, when she made them, like fire, expansible over all space, without lessening their density in any point, and like the air in which we breathe, move, and have our physical being, incapable of confinement or exclusive appropriation. Inventions then cannot, in nature, be a subject of property.

Jefferson then added, "Society may give an exclusive right to the profits arising from them, as an encouragement to men to pursue ideas which may produce utility, but this may or may not be done, according to the will and convenience of the society, without claim or complaint from anybody." Here Jefferson assumes what most people assume: that patents may be necessary for innovation. Who would invest capital to create a new product if anyone may copy it? But we may ask how innovation will come from a system that protects patent holders from competition by barring others from building on previous innovations or that permits legal extortion (see the BlackBerry case)?

Leaving aside whether utilitarian considerations trump natural rights, we can address these questions in light of a transnational study of the pharmaceutical industry contained in the not-yet-published book *Against Intellectual Monopoly*, by Michele Boldrin, profes-

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sor of economics at the University of Minnesota, and David K. Levine, Armen Alchian Professor of Economics at UCLA and coeditor of *Econometrica* (online at www.dklevine.com/general/intellectual/against.htm). The strongest case for patents is said to be in the pharmaceutical industry because the extraordinary R&D costs could not otherwise be recouped. If the utilitarian case cannot be sustained there, it would be a deadly blow to the case in general.

"In fact," Boldrin and Levine write, "we shall see that the case for patents in pharmaceuticals is weak—and so, apparently, even under the most favorable circumstances patents are not good for society, for consumers, or in this case, for sick people. Patents are good for monopolists, but that much we knew already."

Given the vastly different patent regimes from country to country and historically, with several countries having none at all, we might expect a pattern: "In particular, at least between 1850 and 1980, most drugs and medical products should have been invented and produced in the United States and the United Kingdom, and very little if anything in continental Europe. Further, countries such as Italy, Switzerland and, to a lesser extent, Germany, should have been the poor sick laggards of the pharmaceutical industry until the other day. Instead . . . the big time opposite is and has been true."

Their most striking illustration is Italy, which had no pharmaceutical patents until 1978. Yet, "[d]espite this complete lack of any patent protection, Italy had developed a strong pharmaceutical industry: by the end of the 1970s it was the fifth world producer of pharmaceuticals and the seventh exporter. . . . [T]he forty largest Italian firms did not simply imitate but developed their own products and innovated extensively." After patents were introduced, the industry became more concentrated and its share of world drug development fell slightly.

As W.S. Gilbert might have put it, with patents "things are seldom what they seem."

★ ★ ★

Is New Urbanism a philosophy of architectural design consistent with freedom and property rights? Or just another form of local central planning? Steven Greenhut is on the case.

When a television series popular with libertarians goes off the air, there's only one thing to do: wait for the movie. Raymond Keating reviews *Serenity.*

Politicians can do bad things to the economy that nevertheless get them credit or good things (namely, getting out of the way) that gets them no credit. Which do you think they will choose? Dwight Lee has the answer.

Much of the push for taxpayer-financed mass transit is based on safety claims. But there's a problem: mass transit is not unambiguously safer, as John Semmens shows.

Over 150 years ago Antonio Rosmini died. Virtually unknown in America, he was a Catholic priest and a much-published Italian champion of individual liberty and private property. Alberto Mingardi tells Rosmini's remarkable story.

In New Hampshire, as in most places, giving manicures without a license can get you into trouble. Gardner Goldsmith has the account of a man who asked for it.

No organization has done more to promote free markets in Great Britain than the Institute of Economic Affairs, and no one was more responsible for making the institute what it is than Arthur Seldon, who died last year. Norman Barry has written an appreciation of this author-activist.

After falling, gasoline prices are on the rise again, meaning politicians will be calling for some kind of price controls or windfall-profits tax. Arthur Foulkes heads them off at the pump.

Are the ideas in John Stuart Mill's *On Liberty* dated? In our FEE Timely Classic from 1956, Frank Chodorov defends Mill against a distinguished conservative critic.

Here's what our columnists have been working on: Richard Ebeling describes the Great Austrian Inflation. Donald Boudreaux pays tribute to books he's found important. Burton Folsom traces the origins of farm subsidies. Walter Williams continues his Economics for the Citizen series. And Roy Cordato, hearing a claim that a higher gasoline tax will "solve everything," protests, "It Just Ain't So!"

Books about unplanned order, global markets, tax-financed political campaigns, and free speech on campus have caught the eyes of this month's reviewers.

—*Sheldon Richman*
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A Higher Gasoline Tax Will "Solve Everything"? It Just Ain't So!

BY ROY CORDATO

Regrettably, I have to criticize someone who, in the past, I have admired a great deal. John Tierney is an iconoclastic columnist for the *New York Times* who has been writing on environmental issues for at least a decade. His now-classic 1996 *Times Magazine* story critical of recycling was a well-researched article that I have referred to many times.

Unfortunately, in an October 4, 2005, column titled "The Solve-Everything Tax" Tierney buys into a laundry list of economic and scientific fallacies as justification for a new 50-cent-per-gallon gasoline tax.

He opens by saying, "I have a modest proposal to fight global warming, save energy, cut air pollution, ease traffic congestion, reduce highway fatalities and, while we're at it, reform Social Security." But in fact, Tierney's "Solve Everything Tax" would solve nothing and would causes problems of its own. Let's take his claims one at a time.

> But in fact, Tierney's "Solve Everything Tax" would solve nothing and would cause problems of its own.

Fight global warming. In a 1998 *Geographical Research Letter* article Thomas Wigley, a scientist who accepts the alarmist vision of global warming, concluded that if the Kyoto Protocol were implemented with 100 percent compliance the result would be global average temperatures in 50 years that are an undetectable 0.126 degrees Fahrenheit cooler than they otherwise would be. This result has gone unchallenged. Even if one accepts the alarmist position that global warming is primarily human induced and that its effects will be dramatic, extensive, and harmful, a 50-cent-per-gallon gasoline tax will do nothing to alleviate the problem.

Save Energy. It is not the role of government to tell people which productive inputs they should economize on and which they should use more of. Market prices reflect relative scarcities, and people will make tradeoffs in their lives and productive activities accordingly. For Tierney to suggest that he or policymakers know better what resources should be conserved invokes what Hayek called a "pretense of knowledge" and substitutes the decisions of central planners for freely choosing individuals.

Cut air pollution. Assuming that Tierney is referring to ground-level ozone (smog), the primary pollution "problem" still attributed to cars, then this tax is likely to accomplish little. Nationwide, ground-level ozone has been in steady decline for many years and this is likely to continue. Older, more-polluting cars are being replaced by newer, cleaner cars, and in the next few years more stringent federal regulations are coming on line. Leaving aside arguments that both the federal ozone standard and these new rules are overkill, if nothing more is done, most if not all of the country will be in compliance with this standard within the next several years. Tierney doesn't explain why a permanent tax increase on gasoline is necessary to attack what is at most a short-run problem.

Ease traffic congestion. Congestion is experienced primarily during morning and evening rush hours. Commuting to work is probably the most important use that

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people make of their cars. Economic analysis suggests that the higher prices brought about by a new 50-cent tax—which will translate into less than a 50-cent price increase at the pump—will get people to economize on the least, not the most, important uses of their car. In other words, people are most likely to decide to go to restaurants or movie theaters that are closer to their homes, or take vacations that do not involve quite as long a drive. None of this will have an effect on traffic congestion during rush hour.

Reduce highway fatalities. To the extent that this tax encourages the purchase of lighter, more fuel-efficient cars it will actually increase highway fatalities. This has been the well-documented result of federal Corporate Average Fuel Economy (CAFE) standards.

Reform Social Security. For Tierney this is the clincher. It is what ensures that his gas tax is indeed the "solve everything tax." The idea is that the revenue from the gas tax would fund private accounts for Social Security so, as Tierney puts it, "at least they'll get their money back," referring to purchasers of gasoline. The idea that people who pay the gas tax will "get their money back" in the form of a private retirement account is based on several false assumptions. First it assumes that these accounts will somehow be set up in proportion to the amount of gas tax that people pay. If this is not the case, then the whole program would be nothing but a coercive wealth transfer from those who pay relatively more in taxes to those who receive relatively more in "retirement account money." But even if Americans were given retirement accounts that exactly equaled the amount paid in gas taxes, they would still be made worse off. This is because without the tax, the money can be used at any time for any purpose—to pay the rent, buy new clothes, and make car payments, and so on. But money received as a retirement account would be restricted to retirement use. Hence from the perspective of economics that money is less valuable to the taxpayer than the money paid in taxes. This takes into account that the money in the account would accumulate interest. If the gasoline-tax payer preferred to put this money away in an IRA or other retirement account and have it accumulate interest, he would have that option without the "help" (coercion) of Tierney's gas tax.

The idea of funding private accounts for Social Security with a tax increase is certainly not a novel idea. But according to Tierney, this isn't just any tax increase. This is a tax increase that would be good for society even if Social Security were not the target of its booty.

Unrealistic Assumptions

Finally, to put some "rigor" into his proposal, Tierney turns to a study in the *American Economic Review* purporting to show that the gas tax "should increase by 60 cents per gallon to compensate for the congestion, pollution and other costs that drivers impose on society." Besides the fact that none of these revenues would be used to "compensate" anyone for anything, to arrive at such a conclusion the authors of this study had to make assumptions about market prices and what they represent that have no relationship to the real world. When assessing the tax calculations made in these kinds of studies, Nobel laureate James Buchanan concluded in his book *Cost and Choice*, "[T]he analyst has no benchmark from which plausible estimates can be made." Ultimately, these calculations require the same information that an all-knowing economic central planner would need to efficiently plan an entire economy. This is why "pollution taxes" advocated by many economists as a "market based" policy are actually a "stealth" form of socialism. Ultimately, taxes of this sort, while derived in an air of rigor and mathematical elegance, are arbitrary and meaningless in terms of their stated goal—increasing economic efficiency and social welfare.

Ultimately, these calculations require the same information that an all-knowing economic central planner would need to efficiently plan an entire economy.

In reality, Tierney's tax is nothing special. Like a typical "sin tax," its intentions are paternalistic. And like all other taxes, it coercively transfers wealth and distorts economic decision-making.

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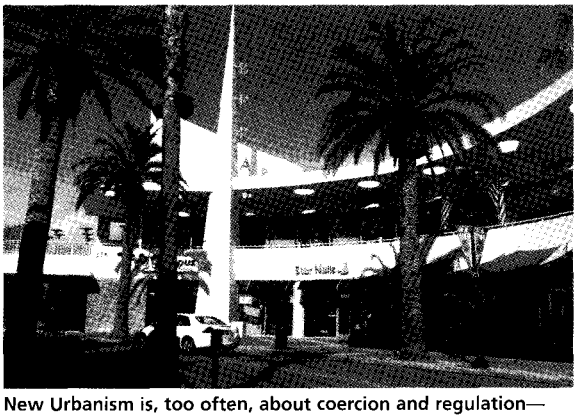
New Urbanism: Same Old Social Engineering

BY STEVEN GREENHUT

What should libertarians think of an increasingly influential land-use and planning movement known as the New Urbanism, which seeks a broad change in the way cities and suburbs develop?

That's become a heated question as this architectural philosophy gains traction, not only in academia and the media, but in the planning agencies and government bureaus that have power over development decisions in cities, counties, and states.

Is this an essentially totalitarian attempt to impose a utopian idea on America through the use of heavy-handed regulation, or is it merely a market-based alternative to the current planning regimen? The answer is important, given that local land-use decisions and local planning officials have an enormous impact on Americans' property rights and other freedoms.



New Urbanism is, too often, about coercion and regulation—but there is no reason it cannot be a market-based alternative to the current planning regimen.

I argue that it is mostly the former—that New Urbanism is, too often, about coercion and regulation—but that there is no reason it cannot be the latter. In other words, New Urbanists should be opposed when they try to impose their philosophy on the country, but supported when individual developers seek to offer New Urbanist-style products in the marketplace.

New Urbanism's tenets are simple: Suburban life undermines a sense of community. People spend too much time in their own private space and in their automobiles. Communities should be built at much higher densities. People should be able to walk from their homes to stores. They should be able to hop on a bus or a rail line rather than take their car. Every town should have a vibrant and hip central area, and there should be open space between towns. Cities should grow mostly within existing urban boundaries. Each urban area would have a core, with growth occurring in an orderly diameter around it. Neighborhoods should be diverse, ethnically and economically.

I take issue with many of these points. Suburban neighborhoods are often filled with the vibrant sense of community the New Urbanists say is lacking. There's nothing wrong with preferring to spend time in a private backyard rather than in the commons area New Urbanists want us to spend time in.

Automobiles offer more lifestyle choices than transit dependency. Although hip neighborhoods are great for a certain stage in life (young adulthood), they lose their appeal during other stages (married with kids). I don't understand why a city as New Urbanists conceive it is any more appealing than any other form of city, and I do not think diversity, economic or ethnic, is either good or bad in and of itself.

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People should live around whomever they want to live around, for any reason.

Nevertheless, my personal disagreements with the New Urbanist analysis are largely beside the point. There isn't anything necessarily more libertarian about one lifestyle choice over another. Some people will prefer urban lifestyles, others suburban ones, still others rural ones. To a large degree they all have been influenced by government planning and zoning regulations.

Unfortunately, New Urbanism offers one acceptable planning blueprint, and ultimately must rely on government regulation to impose it on all of us. One cannot, say, ensure the creation of open space around cities and stop what New Urbanists derisively call "suburban sprawl" without imposing restrictions on property rights. We can't move to a transit-dependent society without new regulations and massive subsidies. New Urbanist leaders, despite their insistence that they only want the freedom to build their projects in the marketplace, advocate what is known as the SmartCode. Andres Duany, one of New Urbanism's founders and a leader of the Congress for the New Urbanism (CNU), explains that "The SmartCode is a planning tool that promotes a sustainable urban pattern while protecting landscape that is considered ecologically and culturally valuable. This is accomplished through the creation of plans and standards that determine where development will occur and how it will be implemented."

That sounds eerily coercive. And influential New Urbanist thinkers paint a doom-and-gloom scenario designed to scare most Americans into embracing a new regimen of rules and regulations, lest our suburban nation descend into a pit of despair, soullessness, and economic ruin.

James Howard Kunstler, an author, academic, and ally of the movement, argues in a recent column posted on his website that "The overriding imperative task for us in the face of the problems ahead will be the downscaling of virtually all activities in America. . . . America made the unfortunate choice (by inattention, really) of allowing nearly all of its retail trade to be consolidated by a very few huge national operations, the Wal-Marts and other gigantic discounters." He calls for American society "to be reorganized at the local and regional scale." Kunstler is eagerly awaiting the demise of cheap oil and predicting a crash in home values and the subsequent destruction of suburbia, with nice neighborhoods turning into festering slums.

He's welcome to his predictions, but his talk of "downscaling" society, of being mistaken in "allowing" the proliferation of Wal-Marts, and of massive "reorganization" is not the language of freedom. And Kunstler offers a "we know best" rebuttal to those who ask whether it's okay to live in suburbia.

"The argument that people like driving around in their SUVs and living in pod subdivisions is really beside the point," Kunstler said on CNN in 2001. "People also like shooting heroin. People also like drinking too much. . . . We are spiritually impoverishing ourselves by living in these environments."

The subtitle of his website article is "Notes on the coming transformation of American life." Most of us get a little nervous when people advocate transformations of society, yet these apocalyptic words are embraced not only by those on the political left, but also among "paleoconservatives" pining for a simpler, more traditional life.

The Language of Deregulation

To sell their far-reaching goals to people who don't necessarily want their lives reordered by experts, New Urbanists have been clever, and even deceptive. They use the language of deregulation and fairness, meanwhile denying that calls for heavy-handed central planning have anything to do with their movement. On closer examination we find that New Urbanists are serious about deregulating land use—but only when it helps them achieve their goals. They are quite comfortable with new land-use rules, urban growth boundaries, eminent domain, and other government "tools" when such regulations advance their ultimate goal of promoting the types of communities they prefer. They do not seem to care about freedom, only about their design goals.

The Chicago-based CNU is run by John Norquist, former mayor of Milwaukee. Norquist is a moderate guy, best known for standing up to unruly public-employee unions and advocating school vouchers while mayor. He filed an amicus brief on behalf of the property owners in *Kelo v. City of New London* and spoke out against the Supreme Court's decision in that case allowing the city to use eminent domain for economic devel-

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opment. He argues, persuasively, for more deregulation of land-use decisions.

What's not for a libertarian to like? Unfortunately, Norquist is the moderate face on a movement filled by people who view Portland, Oregon, as Nirvana. In Portland local officials installed a Metro government to control all regional planning decisions and imposed a "green line" that virtually outlaws development outside an urban boundary. Land is being deregulated within the boundary to allow the creation of high-rise living, but it is totally controlled outside the boundary. Huge subsidies are poured into the creation of a rail system.

After I referred to New Urbanism as "totalitarian" in an *Orange County Register* column, Norquist responded with these arguments:

"The New Urbanists do not demand the elimination of suburbia—only that we be allowed to build compact, walkable and mixed-use communities. Current zoning codes in most areas allow only the development of single-use, auto-dependent housing subdivisions, shopping centers and office parks. New Urbanists have found that there is a strong market demand for traditional towns, and that towns should not face regulatory obstacles greater than conventional suburbia."

Downtown Brea, California

Those are reasonable points, ideas that libertarians can support. That perhaps explains why some libertarians gave me a hard time after I wrote several columns critiquing New Urbanism. But there's much more to the movement than that benign aspect.

Norquist made the distinction between New Urbanism, which he describes as a market phenomenon, and Smart Growth, which he describes as a public-policy movement. Some New Urbanist defenders place Kunstler in the Smart Growth movement and say he doesn't epitomize New Urbanism. When I criticized a local city's (Brea, California) use of eminent domain to create a New Urbanist downtown, New Urbanists told me that isn't really New Urbanism. Norquist invited me to speak on a panel at a CNU conference in Pasadena to air my criticisms of the movement.

No Distinctions to Be Found

Yet after speaking to the Congress and attending its conference, I found that the distinctions Norquist made between government-heavy Smart Growth and market-oriented New Urbanism seem phony. A flier in the information packet promoted Smart Growth. The New Urbanists I've talked to always seem eager to use government to promote their ends. The website www.newurbanism.org includes a glowing description of Smart Growth, which advocates nearly identical principles to those advanced by New Urbanism—compact walkable communities, development within existing urban boundaries, and so forth.

As I mentioned in my speech at the conference, the CNU's charter for the New Urbanism is filled with governmental demands: "We advocate the restructuring of public policy and development practices to support the following principles: neighborhoods should be diverse in use and population; communities should be designed for the pedestrian and transit as well as the car. . . ." New Urbanists call for metropolitan government, which would make it far more difficult for individuals to escape any foolish public policies. Suburbs, with their individual governments, have long bothered those who promote high taxes, burdensome regulations, and other socialist ideas. In a region with multiple governments, residents can flee to ones with better school systems, lower taxes, and fewer regulations. With metropolitan government, one must leave the region to flee the government planners, but the New Urbanists prefer metropolitan "solutions" that reduce individual freedom and choice.

Ironically, the Brea downtown, built on eminent domain and enormous subsidies, was celebrated at the conference as a New Urbanist success, with tours of the area offered to attendees. During one presentation

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Kunstler was celebrated as a visionary. Norquist took an honorable stance on eminent domain, but during my panel Duany made an impassioned case for its use, insisting that New Urbanists would use any means available to achieve their ends.

So what's the difference between market-oriented New Urbanism and government-intensive Smart Growth?

Nothing as far as I can tell. It's the same movement, but whenever critics point to its coercive policies, New Urbanists say, "Don't blame us. That's Smart Growth. We're just a design movement." That is intellectually dishonest. New Urbanism and Smart Growth are the flip-sides of the same coin—a planning regimen that wants to deregulate current land-use practices to impose a new set of even-more-draconian land-use rules that promote the creation of urban rather than suburban environments. If the New Urbanists were serious about deregulation, argues Randal O'Toole of the American Dream Coalition, then Houston, with its lack of zoning, would be their favorite city. Instead, Portland invariably tops the New Urbanist list.

"For many New Urbanists, it isn't enough to build to the market," argues O'Toole and Stephen Town, in a February 2005 *Reason* magazine article. "The Congress for the New Urbanism, founded in 1993, declares on its Web site that 'all development should be in the form of compact, walkable neighborhoods.' New Urbanists eagerly helped write zoning codes that forbade things that had been previously mandated—broad streets, low densities, separation of residential from commercial uses—while mandating things that had formerly been forbidden, such as narrow streets, high densities and mixed uses."

Stephen Town, an architectural liaison officer with a British police department, argues that New Urbanist communities increase crime. For instance, New Urbanist communities obliterate private backyards and replace them with broad common areas, and mix commercial space within residential areas. In that situation "everyone has the right or excuse to be present, and offenders are indistinguishable from law-abiding citizens," Town argues. In suburbia, people know who belongs on the street and who does not.

Living in such projects is fine if people want to choose to live that way, but New Urbanists are using their political influence to mandate such designs. As Town notes, there will be unfavorable consequences.

In reality, New Urbanism is about imposing a certain aesthetic on the country, one more to the liking of an elite group of architects and planners.

At the Congress for the New Urbanism

My experience at the Congress confirmed what I had long believed. When I attended a session on religion and the New Urbanism, I naïvely expected it to be about the way suburban land-use rules make it difficult for churches to locate their properties, or the way cities, in their zeal for sales-tax dollars, refuse to allow churches to use land that could be "better" used by big-box stores.

I heard none of that. Instead, panelists spent their time criticizing "mega-churches." One panelist couldn't understand why churches felt the need to include basketball courts. My thought: Because they would like to have those things. The whole tone of the discussion was elitist, and the focus was on what churches ought to be allowed to do. During the question-and-answer time, audience members ranted about the Bush administration, corporations, and the like. It was almost funny, except that these people had no interest in freedom—only in promoting an architectural aesthetic that they claim would promote "community." That seemed dishonest, given that the churches they hate—big suburban churches—tend to be growing and filled with community, while the churches they advocated—architecturally beautiful mainline churches—often are dying from lack of attendance. In reality, New Urbanism is about imposing a certain aesthetic on the country, one more to the liking of an elite group of architects and planners.

One of the big concerns among New Urbanists is that suburbanization causes people to be less willing to have their taxes increased to pay for social programs. The best-attended seminar was the one on light rail, in which

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New Urbanists actively pushed for massive subsidies to build these little-used trolley systems. No doubt, the New Urbanists hate the 1960s-era urban renewal projects that libertarians also hate. But libertarians understand that all central planning is bad, while the New Urbanists simply want to replace the old central plans with their new and improved versions. It's a big difference.

Of course, the suburbs can be bland and lacking in style and entertainment offerings. Ditto for small towns and exurbs. Professor Richard Florida argues that the key to urban development is to lure a "creative class" by building hip neighborhoods, vibrant gay communities, subsidizing downtown lofts, and other marks of urban culture. I don't agree, but that argument understandably appeals to some lifestyle libertarians.

Nick Gillespie, editor of the libertarian *Reason* magazine, echoes that idea in his February 2005 column, "Live Free and Die of Boredom." He chides a "U.S. Economic Freedom Index" compiled by *Forbes* magazine and the Pacific Research Institute, which ranks U.S. states based on regulatory issues, taxation, legal risk, and other freedom-related measures. New York was last, Kansas first.

"If you had to choose somewhere to live, would you really move to Jayhawk country if you could figure out any way, short of acting in porn, to stay in New York?" Gillespie asks. " 'Economic freedom' . . . is pretty far down the list of what drives decisions about location, whether for businesses or individuals." Although Gillespie doesn't address the New Urbanism directly, his column reflects why the New Urbanism, in its promised antidote to suburban boredom, has a certain appeal, especially among younger, entertainment-oriented people. (I would have hoped, however, that the editor of a major libertarian magazine would have put a higher priority on freedom, but I digress!)

Developers and planners I know argue that New Urbanism is fine in reaching that small demographic. By all means, regulations should be reduced so that developers can reinvigorate older urban areas with exciting new projects. But it makes no sense, and is an affront to freedom, to use SmartCodes and the like to impose this narrow preference on the entire nation.

Deregulation Is the Answer

In the September 2005 *New Urban News*, Robert Steuteville argues: "Greenhut lives in what is commonly called suburban sprawl, and he likes it. That's fine, but his neighborhood is not free of regulation. Every subdivision, including those in Houston, the city without zoning, has to submit to regulations and approvals, which involve a degree of coercion. Greenhut and other so-called libertarians such as Randal O'Toole never seem to be outraged by the coercion of zoning that mandates low-density sprawl."

Steuteville is right that no neighborhood is free from regulation, although he is wrong about my supposed lack of outrage about regulation that mandates low-density sprawl. My column criticizes every form of land-use regulation, and I have defended the right of developers to build projects that can be called New Urbanist. Maybe within his criticism lie the seeds of common ground. Perhaps we, as libertarians, should make an offer to Steuteville and other New Urbanists: Let's join in the fight to deregulate all land use. Then New Urbanists can build what they want; suburban developers can build what they want; and we'll all let the market decide.

Based on my experiences with New Urbanists, however, I don't think we'll get many takers.

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Jeffersonians in Space

BY RAYMOND J. KEATING

Some of us occasionally have stumbled on a television show actually worth watching, only to see it cancelled perhaps after just a season or two on the air.

For defenders of freedom and individualism, it was even worse. In 2002 a science-fiction show with unmistakable libertarian leanings wound up lasting only four months. "Firefly" premiered on Fox in September and was gone by the end of December. In fact, three of the 14 shows created never aired. But all was not lost thanks to DVDs and the movie theater.

Back in the 1960s, Gene Roddenberry pitched a science-fiction show to NBC as a "Wagon Train to the Stars." "Wagon Train" was a television western, and TV executives were far more enamored with westerns than with sci-fi at the time. NBC signed on, and Roddenberry's "Star Trek" was born, which turned out to be television's greatest science-fiction success, encompassing six television series and ten motion pictures over nearly four decades.

But "Star Trek" was not a western in outer space. For that, viewers had to wait for Joss Whedon to create "Firefly." Here was a fascinating merger of the Old West with space travel five hundred years in the future. Gun belts and six-shooters went along with lasers. Cowboys on horseback rode next to hover cars. Cattle were moved via spaceship.

"Firefly" also placed some classic western-type characters in outer space. The spaceship's captain—Malcolm Reynolds—was a bit of the rogue, plagued by his past, but with a streak of nobility. There's also the prostitute with the big heart and a preacher onboard.

In addition, much of the television show played out on a wild-west-like frontier, sprinkled with brothels, dust, shootouts, rough-and-tumble saloons, and even a train heist.

The stories neatly melded action, interesting characters worth caring about, western dialogue, and humor. But it wasn't just the concept behind "Firefly" that was truly unique; it also was an unabashed anti-big-government and pro-freedom philosophy. Clearly, the bad guys in the television series were the Alliance, that is, the government that defeated the Independents—for whom Reynolds and his first officer Zoe fought—in a war several years earlier.

> The film *Serenity* was even more aggressive than the television show "Firefly" in its warnings about the ills of unchecked, big government.

Reynolds most often communicated hostility toward the Alliance and government. In one episode, he declares: "That's what governments are for—to get in a man's way." At another point, he says: "That sounds like the Alliance—unite all the planets under one rule, so everybody can be interfered with or equally ignored."

When Reynolds was buying his spaceship *Serenity*, he spoke poetically about it representing "freedom," and said that he and his crew "ain't never have to be under the heel of nobody ever again. No matter how long the arm of the Alliance might get, we'll just get ourselves a little further." As in many westerns, pushing further out

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on the frontier in "Firefly" meant greater freedom for the individual.

Even the preacher—known as the Shepherd—adds: "A government is a body of people, usually notably ungoverned." Indeed, how deliciously libertarian.

Fortunately, fans did not lose "Firefly" after its cancellation. The series arrived on DVD, including the episodes that never made it on television, and became a surprise big seller.

So in September 2005, this tragically truncated, cancelled television series came to the silver screen as a film titled *Serenity*. It earned widespread solid reviews. In fact, Jan Stuart in *Newsday* proclaimed that "George Lucas could learn a thing or two from Whedon. 'Serenity' flies with sass and spirit, qualities that have been in palpably short supply in that 'Star Wars' series since, well, 'Star Wars.' " That's high praise.

The film was even more aggressive in its warnings about the ills of unchecked big government. A scene at the start of the movie features a tranquil setting of children in class learning about the war between the Alliance and the Independents. Most of the children wonder why anyone would oppose the wonderful and civilized things they enjoy under the Alliance. A girl named River responds: "We meddle. People don't like to be meddled with. . . . We're meddlesome." We eventually discover just how meddlesome.

A few years later a ruthless assassin is dispatched by the Alliance to kill River, who turns out to be a mind reader and is part of the *Serenity* crew. The mission of the Alliance is summed up when the assassin declares: "We're making a better world."

As Reynolds and his shipmates eventually discover, part of that effort to make people better was a failed experiment on one planet. Trying "to keep people safe," a drug was added to air processors to weed out aggression and stop all fighting. The result was that 30 million people gave up and let themselves die, while a small share of the population went mad and became cannibals, known as Reavers, who terrorize certain parts of space.

The assassin is after River, on whom, by the way, the government performed all sorts of horrible experiments because she was exposed to members of parliament who knew about the planet-wide experiment going awry. Reynolds notes that the government "buried" this gross atrocity, is certain it will try again someday, and is determined to get the word out to all. As he puts it, "I aim to misbehave."

It's easy to envision Captain Reynolds agreeing when Thomas Jefferson said: "A little rebellion now and then is a good thing, and as necessary in the political world as storms in the physical." Indeed, one might refer to the crew of *Serenity* as "Jeffersonians in Space." They certainly practice in these tales what Jefferson said about the price of liberty: "The tree of liberty must be refreshed from time to time with the blood of patriots and tyrants."

In the end, serenity comes not from the so-called safety of the Nanny State, but from individual freedom—even in outer space.

Perhaps more applicable to our day-to-day lives, Whedon's television show "Firefly" and movie *Serenity* buttress the doubts many of us have on hearing from the mouth of a politician or bureaucrat, "I'm from the government, and I'm here to help."

In the end, serenity comes not from the so-called safety of the Nanny State, but from individual freedom—even in outer space. And if no more space westerns are forthcoming featuring the crew of *Serenity*, I have both the television series and the movie on DVD to provide enjoyable reminders that—even though imperfect and messy, as exhibited in Whedon's vision—freedom must be treasured.

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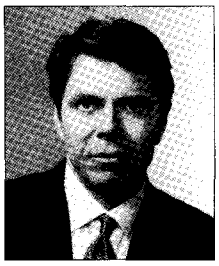

So Much to Read!

BY DONALD J. BOUDREAUX

A student recently asked me to recommend books that will help her to better understand the economy and society. I love such questions because they give me the opportunity to recall books that were especially important in my own intellectual development, and to reflect anew on their messages.

So here I list the ten nonfiction books that were, and remain, most important to me, more or less in order of significance.

F. A. Hayek, *Law, Legislation and Liberty, Volume I: Rules and Order*: Hayek's explanation of the difference between "law" and "legislation" was eye-opening to me when I first read this book as an undergraduate in the 1970s. Until then I assumed, as most people do, that legislation is law. It's not. Indeed, legislation frequently is the antithesis of law. Like prices and other market institutions, law emerges—"evolves"—spontaneously from the choices and actions of countless individuals interacting with each other. Legislation, in contrast, typically is created de novo by legislators and written down in statute books.

Legislation is written commands enforced at gunpoint. Law is expectations and norms that reside mostly in people's minds, in their cultural understandings, and are enforced with tools much broader than threats of violence.

Because this distinction is so foreign to the modern mind, it's extraordinarily difficult to grasp. But Hayek's profound and scholarly explanation makes grasping this distinction easy for the careful reader.

Richard Dawkins, *The Blind Watchmaker*: While this book is not one in the social sciences, its unparalleled elucidation of natural selection, along with Dawkins's stunning clarity at explaining complex scientific principles, makes this book a treasure. Reading it greatly improved my understanding of the logic of natural selection, of competition, and of the spontaneous order. Reading this book also drove home to me the conviction that nothing is too complicated to explain clearly and engagingly.

Because Dawkins is the foremost living Darwinian biologist, many religious people avoid his works. This strategy is a mistake. While I myself am not religious, I'm confident that even the most devout fundamentalist can learn much of value from Dawkins without feeling obliged to abandon his or her faith.

Joseph Schumpeter, *Capitalism, Socialism, and Democracy*: Actually, it's only Book 2 of this volume that is important—but oh how important it is! No explanation of market competition rivals this one. Not only are these the pages on which appear Schumpeter's justly famous "creative destruction" insight, they are also pages that reveal better than any place else that competition is a *process*. No other work so effectively exposes textbook models of "competition" to be hogwash, models that confuse more than they enlighten.

Fernand Braudel, *The Structures of Everyday Life*: This massive work of history tells how ordinary Europeans lived during the Middle Ages—what they ate, what they wore, how they worked, how they housed themselves, how they died. Such knowledge is one of the best ways I know for modern people to put our own prosperity in perspective. Reading Braudel teaches that there was no precapitalist golden age in which peasants were simple but happy, the environment unspoiled, work hard but satisfying, food wholesome and plentiful, neighbors kindly and wise, life satisfying and secure. The exact opposite is true. Our pre-industrial ancestors lived lives that were absolutely poor, wretched, filthy, ignorant, and dangerous. Capitalism rescued us from a misery that we today would find unbearable.

Tyler Cowen, *In Praise of Commercial Culture*: Especially since the fall of Soviet communism, fewer people

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argue that the market doesn't deliver the material goods. More and more, arguments against the market are along the lines of: "The problem with the market is that it delivers the goods *too* well! By obsessing on producing, the market destroys nonmaterial things of value, such as culture." Cowen mixes accessible and unassailable economic reasoning with many facts about cultures, past and present, to show that commercial cultures are invariably rich, interesting, and decidedly not homogeneous. Commerce and culture go hand in hand. No one explains and documents this fact more clearly than does Tyler Cowen.

Harold Berman, *Law and Revolution*: Why is the West free and prosperous? Why is eastern Europe less free and less prosperous? There are no easy answers to these questions. But no answers should even be attempted without the insights that run through this important book. Berman shows that, unlike in eastern Europe, sovereignty in western Europe following the collapse of the Roman empire was always fractured. The crown competed for power throughout western Europe with the church, with merchants, with feudal barons, and with independent cities. (And, of course, after Martin Luther came along, religious authority itself split into several churches, thus further increasing the number of competitors for power and authority.) This competition in the West among different sources of authority—many of them seeking absolute dominion—ensured that ordinary men and women were not trapped by rulers with unchecked power. Notions of individualism and constitutionally limited government arose from this competition.

David Friedman, *The Machinery of Freedom*: Short yet covering much territory, and aggressive yet soundly reasoned, this book raises the defense of freedom to a new level. It's daring, asking why must the likes of highways, courts, and even defense from foreign aggressors be supplied by government. Whether you agree or disagree with Friedman's case for a stateless society, his explanation of how to think about such a society—and about how such a society might work in practice—enriches your thought and deepens your understanding.

Buchanan and Tullock

James M. Buchanan and Gordon Tullock, *The Calculus of Consent*: This book is a deep work in both economics and political philosophy. It remains the keystone of Public Choice analysis—namely, the use of economics and rational thought to study politics (as opposed to the all-too-common practice of assuming that government is some magical, romantic force on a mission to make us all healthy, wealthy, wise, and great). This book sharpens readers' analytical skills so that they are better equipped to make sense out of what's happening politically.

Frédéric Bastiat, *Economic Sophisms*: Seeing the essence of an issue with crystal clarity is always impressive. But being able to explain what is seen so that those of us with more clouded analytical vision can understand the issue clearly is a rare and wonderful talent. Bastiat possessed truckloads of that talent. Exposing all manner of economic "reasoning" as malarkey, Bastiat teaches the economic way of thinking in a style that's great fun to read—and useful, for the same malarkey that Bastiat exposed in the 1840s continues today to spill forth from the mouths of politicians and pundits.

Geoffrey Brennan and Loren Lomasky, *Democracy and Decision*: By far the most academic volume on my list, this book noticeably deepened my understanding of politics. It rounds out Public Choice economics by explaining how ideology and beliefs can and do play a significant role in politics. And it does so while always working within the tradition of Public Choice.

Any list of favorite books will be somewhat arbitrary. Already my mind is filled with titles of other works that taught me much—works such as Ludwig von Mises's *Socialism*, Robert Higgs's *Crisis and Leviathan*, Hayek's *The Counter-Revolution of Science*, Bruce Benson's *The Enterprise of Law*, Paul Heyne's *The Economic Way of Thinking*, Richard Posner's *Economic Analysis of Law*, Israel Kirzner's *Competition and Entrepreneurship*, and Leonard Read's *Anything That's Peaceful*.

But rather than agonize over whether my list of ten books is as accurate as it can be, I rejoice that we have access to such a large number of creative and brilliant scholars who will teach us if only we will learn.

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The Disconnect Between Political Promises and Performance

BY DWIGHT R. LEE

What can politicians do to create more higher paying jobs? Politicians must think that most of us believe the answer is: a lot. One of the most persistent campaign promises is the creation of good jobs at good wages. I shall argue that politicians can do quite a number of things to increase high-wage employment. But this does not mean that I favor politicians trying to keep their high-wage promises, because the things politicians *can* do to improve jobs are not the things they *will* do.

Politicians can enact policies from two general categories to achieve desirable outcomes, including the creation of high-paid jobs: 1) policies that work, but in ways that do not benefit politicians, and 2) policies that don't work (and typically make matters worse), but which create the mirage of working in ways that do benefit politicians.

Under prevailing democratic arrangements, electoral survival demands that politicians appear to promote desirable social objectives with direct and decisive action that caters to organized interest groups. Even when such special-interest policies are socially harmful, as they invariably are, they still do more to promote the interests of politicians than policies that would promote broad social benefits indirectly by creating a setting in which people can pursue their various interests through productive interaction. The political problem with the indirect approach is twofold: 1) the benefits are created so gradually and spread so widely that few will notice them, and 2) even if the benefits are noticed, it will be difficult, if not impossible, for politicians to claim credit for them. As F.A. Hayek pointed out in volume three of *Law, Legislation and Liberty*, politicians "who hope to be reelected on the basis of what their party during the preceding three or four years has conferred in *conspicuous* special benefits on their voters are not in the sort of position which will make them pass the kind of general laws which would really be most in the public interest" (emphasis added).

Under prevailing democratic arrangements, electoral survival demands that politicians appear to promote desirable social objectives with direct and decisive action that caters to organized interest groups.

When we look at policies aimed at creating high-paying jobs, we easily find examples where politicians preferred conspicuous "benefits" that actually harmed the public to inconspicuous benefits that really were good for the public.

Many policies would increase the number of high-paying jobs indirectly, and many would appear to increase the number directly but actually reduce those jobs and lower wages. The former policies all do the one thing necessary for higher wages and salaries —increase labor productivity—while the latter policies all reduce, or retard, labor productivity, and so reduce wages below what they would be otherwise. The political bias against effective policies is readily apparent from

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the following list and brief discussion. Consider first some policies that would increase wages.

Eliminate restrictions on imports: One of the most effective things the federal government could do to increase labor productivity and wages is eliminate tariffs and other restrictions on imports. Reducing import restrictions increases real wages in two ways. First, it reduces the price workers have to pay for those goods and services that can be produced at less cost in other countries than they can be domestically. Second, it increases the competition domestic producers face from foreign producers, which directs workers into those employments in which they are most productive—in which they have a comparative advantage.

Increased productivity is both necessary and sufficient to increase wages, at least in general. No serious person can deny that there are costs associated with workers moving to more productive jobs, or that a few people will be unable to find new jobs that pay as much as the ones they lost. But no economy can prosper without open competition, which keeps all resources, including labor, moving from less-valued to more-valued employments (in the eyes of consumers) in response to constantly changing conditions. And even those who end up with lower wages because of the particular adjustments they are required to make still earn far higher wages than they would in an economy where they, and everyone else, are protected against having to make such adjustments.

But no economy can prosper without open competition, which keeps all resources, including labor, moving from less-valued to more-valued employments (in the eyes of consumers) in response to constantly changing conditions.

End corporate welfare: Import restrictions are a form of corporate welfare, but unfortunately not the only form. Businesses have successfully lobbied government for a large number of subsidies and regulations that transfer wealth to them by hampering the competition they face. Eliminating all forms of corporate welfare would increase high-wage jobs by reducing taxes and their distorting influence (see below), and allowing both domestic and foreign competition to direct labor and capital into their most productive uses, as determined by consumers, not by politicians catering to their special-interest clients.

Lower marginal tax rates: No matter how efficient a government is, it has to raise revenue to finance its activities, and that means imposing taxes. Unfortunately, all taxes reduce economic productivity by 1) putting a wedge between the price suppliers receive and demanders pay, thus preventing mutually beneficial exchanges from occurring, and 2) motivating people to make decisions to avoid taxes rather than create wealth. These distortions are commonly called dead-weight losses and are an inevitable cost of taxes over and above the opportunity cost of the money raised. Reducing the dead-weight loss from taxation increases the effectiveness of exchanges between employers and employees at directing workers to where consumers would value them most, and increases the general level of productivity, both of which increase the real wages of workers. So an effective way of increasing the number of high-paying jobs is by lowering the marginal tax rate and expanding the tax base by eliminating tax loopholes, reducing the dead-weight loss of taxes for a given amount of revenue raised. The lower the marginal tax rate the smaller is the wedge between what sellers receive and buyers pay, and the fewer the tax loopholes (along with a low marginal tax rate), the less the tax benefit from diverting resources from high-valued production to low-valued tax avoidance.

Avoid inflation: The federal government can do a lot to increase high-paying jobs by avoiding inflation. Inflation erodes labor productivity and lowers real wages, just as surely as it erodes the value of the dollar. The most destructive thing about inflation is that it distorts the information communicated by market prices, reducing the ability of market exchange to direct resources, including labor, into their most productive uses. Just as a yardstick ceases to be useful for measuring and comparing distances if its length is subject to sporadic change, so market prices are less useful for expressing and com-

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paring values when the value of money is subject to sporadic changes. Also, inflationary distortions make it almost impossible to know what interest rate is appropriate when people borrow and lend money to finance long-term investments. So in an inflationary environment, many efficient capital investments that would increase the future productivity of labor—and increase future wages—never get made.

Avoid the Pork

Reduce pork-barrel spending: There can be no doubt that reducing pork-barrel spending would increase real wages by increasing the productivity of the economy. A major portion of federal spending is motivated by the ability of particular congressional districts or organized interest groups to capture benefits by spreading the costs over the entire taxpaying public. With those receiving most of the benefits paying only a small portion of the cost, the pressure is to expand spending well beyond the socially efficient level. Resources are transferred from higher-valued uses to lower-valued uses (for consumers), reducing the value of the goods and services available, and thereby reducing the real value of salaries and wages. Excess government spending is a negative externality, just like excess pollution, and the former is no less destructive of productivity, and does no less to erode real wages, than the latter. If politicians worried about the negative externalities of pork-barrel spending as much as they claim to worry about those of excess pollution, the result would be less wasteful government spending and more high-paying jobs.

> Politicians often call for higher taxes as the best way to promote economic growth and create more and better jobs.

Eliminate the minimum wage: This would increase wages by increasing the human capital that, for many young people, is best acquired through on-the-job training. Minimum-wage legislation clearly creates unemployment among young people who, for a variety of reasons, including being trapped in dysfunctional public schools, don't have skills worth the legally imposed minimum wage. The result is not just unemployment, which may be a short-term problem, but a reduction in the opportunities for many young people to acquire the skills and attitudes that will make them more productive over the long run. Even those who do get a job at the minimum wage are less likely to get one in which the employer invests in them by providing training opportunities at the cost of some immediate output. The minimum wage prevents many young people with little opportunity to continue their formal education to develop the skills necessary to earn a good income in the future by working at a low wage when they have few financial responsibilities. Eliminating the law would make it legal for our less-advantaged youth to have much the same opportunity for higher-paying future jobs as more fortunate youth get through college subsidies.

Reduce the power of labor unions: Eliminating some of the legislative privileges that empower labor unions would be an effective way to increase wages. Labor unions can, and do, increase the wages of some workers. But they do so by reducing the wages of others by enough to reduce wages in general. Because of legal privileges that unions receive, it is difficult (and sometimes impossible) for workers to qualify for some jobs without being members of a union. Thus unions can increase some wages by restricting entry into some occupations and rendering those workers less efficient with rigid work rules.

All these practices reduce the productivity of the general labor force. Restricting entry into some occupations increases the wages of union members who work in those occupations, but it increases the number of workers in other occupations where their skills are less valuable. This not only lowers their wages, but reduces the productivity and wages of workers in general by preventing them from moving into their highest-valued employments. By reducing the flexibility of employers to shift workers from one task to another in response to changing conditions, rigid work rules also reduce the productivity, and wages, of workers.

Industry-wide labor unions have also lowered general economic productivity through cartelization of workers. If the firms in an industry explicitly agreed to reduce their output to increase their prices, they would be in clear violation of antitrust law (from which unions are

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exempt) and subject to harsh penalties—including prison time for senior managers. On the other hand, the firms in an industry have little to worry about if output is reduced because of a strike by its union. So both industry profits and union wages can be increased by the inefficiencies of a cartel "agreement" that remains within the law only because it is brokered by a labor union. (I am not arguing for antitrust laws. Even if antitrust laws could be rendered immune to political considerations, which they have never been and never will be, they would still reduce the competitiveness of the economy because of the static textbook notion of perfect competition on which they are based.)

All these union-induced inefficiencies reduce output below competitive levels and therefore reduce real wages. These inefficiencies would be reduced and the real wages of workers would be increased by reducing the power of labor unions.

As I have noted, all the policies discussed have one thing in common—they would increase wages by increasing economic productivity. They also have another thing in common—they would increase wages broadly, indirectly, and gradually by establishing an environment in which people productively cooperate with one another through markets in ways that best serve their collective interest. This means that the better jobs and higher wages will not be readily noticed, and even when they are, they will not be seen as the result of can-do government actions for which politicians can easily take credit. So the effectiveness of these policies at creating the type of jobs that politicians are constantly promising to provide does not translate into much political support for them. Politicians would rather receive credit for appearing to create better jobs with counterproductive policies than not get credit for policies that actually allow better jobs to be created. We now consider some policies that are politically popular because they give the appearance of increasing high-wage jobs while actually reducing them.

Policies That Reduce Wages

Restrict imports: When politicians argue for increasing an import restriction or against reducing a restriction, they invariably claim that they want to protect high-paying jobs. An import restriction does protect some high-paying jobs, but at the cost of reducing the emergence of other, even higher paying, jobs, because of the general reduction in productivity that lowers average real wages. But the protected jobs are currently held by relatively few identifiable workers who are typically well represented politically and are fully aware of the benefits they receive from politicians who vote for a trade restriction protecting them from foreign competition. The resulting loss of even more productive jobs can be safely ignored by politicians since it is widely dispersed and not easily noticed—it is hard to miss what we never had. And even if the loss is noticed, the cause—the import restriction—is not easily seen.

Put corporations on the dole: Politicians oscillate between attacking business and praising it, depending on the political issue and climate. But they are constant in dispensing large quantities of corporate welfare that the general public pays for through higher taxes and lower economic productivity. The most common justification for this welfare is that it creates jobs. And indeed it does, but only by destroying the chance for more productive jobs that would have emerged if competition had not be restricted and consumers had been allowed to spend the money paid in taxes to buy what they valued most instead of paying for corporate welfare. Unfortunately, the jobs that are created are visible and easily seen to be the result of government policy, while the higher paying jobs that don't emerge are invisible—it is difficult to miss what never was created.

Raise taxes: Politicians often call for higher taxes as the best way to promote economic growth and create more and better jobs. Supposedly higher taxes will reduce the budget deficit, which will reduce interest rates by reducing government borrowing. The popularity of raising taxes to increase good jobs seems to contradict the thesis of this article. It suggests that politicians are willing to take an unpopular action—raising taxes—to provide a general benefit—widespread economic growth and job creation. But raising taxes is not an effective way to increase economic growth and create jobs. Even if raising taxes did reduce the federal budget deficit, it is not likely to have much effect on interest rates. Interest rates are determined in a worldwide capital market, with rates often falling when the federal budget deficit is increasing and rising when it is decreas-

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ing. Second, increasing taxes seldom reduces the budget deficit, at least not for long. Even when higher taxes raise more tax revenue, the additional money is invariably used to expand government spending and pork-barrel programs, with spending growth typically outpacing revenue growth. The effect is to substitute public spending guided by political influences for private spending guided by economic considerations—a sure prescription for reducing productivity and lowering real wages. Also, with higher tax rates, special interests are willing to pay politicians more for tax loopholes, which introduce more productivity-reducing distortions in the allocation of spending and investments. The political cost of increasing taxes is more than offset by the political benefits from the plausible pretense that good jobs are being created while securing more of the national income to buy more electoral support.

Increase government spending: The list of benefits from more spending on highway construction, recycling, education, agricultural subsidies, parks, airport expansion, water-diversion products, and so on always includes additional jobs. But the jobs created are a major cost of these spending projects, not a benefit. The jobs necessary to build a road or recycle aluminum cans are filled by workers who are not producing value in other activities. Unless this cost is considered, the jobs created will be destroying wealth at the margin, since the value created by workers on government-funded projects will be less than the value (in terms of consumer preferences) they could be creating elsewhere. Political incentives make this misallocation of labor inevitable.

Regulate labor markets: Politicians can take credit for protecting and creating jobs by imposing a number of productivity-reducing restrictions on labor markets. To list two: affirmative-action enforcement pressures employers to hire workers on the basis of the racial mix of the communities in which they operate and increases the difficulty of dismissing unproductive workers; politically mandated employee benefits reduce the flexibility of employers to adjust compensation in ways that attract the best mix of workers to their firms at the least cost. (We've already discussed the minimum wage.)

The advantage of the policies that would create more high-paying jobs indirectly is that they do so by creating a positive-sum setting in which people interact in increasingly productive ways. The same increase in productivity that raises real incomes also increases the general level of wealth, enhancing our lives in a host of ways. For example, as wealth increases, infant mortality decreases, life expectancies (and the quality of life) increase at all age levels, poverty declines, the environment becomes cleaner, access to the arts increases, more leisure time becomes available, and jobs become safer, more pleasant and higher paying.

The problem with policies that try to create more high-paying jobs directly is that they do so with government transfers and protections that are negative-sum. Yet this negative-sum approach is politically compelling because politicians receive much of the credit for the benefits, while receiving little of the blame for the larger losses.

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How Public Transit Undermines Safety

BY JOHN SEMMENS

Everyone knows that automobile travel is dangerous. This naturally leads to the assumption that public transit ought to be encouraged as a means of improving travel safety. However, the issue is more complex than this simple assumption allows. In some respects, introducing more transit vehicles into the mix of urban transportation options will increase the risk.

Travel as a passenger on public transportation is safer than travel by private cars. The fatality risk for a person traveling in a car is almost 100 times higher than that for a person traveling in a bus (American Public Transportation Association's Public Transportation Fact Book). Passengers traveling in rail-transit vehicles probably face a similarly low risk.

However, the onboard risk is not the only safety issue of concern. Pedestrians face risks prior to boarding transit vehicles. Further, rail-transit vehicles operating on rights-of-way that intersect streets may collide with persons, vehicles, or objects that come into the path of the transit trains. Fatality rates by vehicle type (Table 1) were compiled from the National Highway Traffic Safety Administration's *Traffic Safety Facts 2000*, the Federal Highway Administration's *Highway Statistics*, and the American Public Transportation Association's *Public Transportation Fact Book*. These statistics are revealing.

As can be seen from the data, rail transit has severe safety deficiencies when compared to other modes of urban travel. The aggregate fatality rate for auto travel is around 15 persons per billion vehicle-miles of travel. However, this includes rural travel, where the fatality rate per billion vehicle-miles is 23. The nationwide fatality rate per billion vehicle-miles of urban automobile travel is 11, and when passengers are included, it drops to 10. Thus we find that light rail's 14 fatalities per billion passenger-miles of travel and commuter rail's 12 fatalities per billion passenger-miles of travel are actually higher than the rate for privately operated automobiles.

Since rail transit has a worse safety record than automobiles, the notion that safety can be improved by spending tax dollars to lure some automobile users to switch to rail travel is not supported by the crash data. Auto drivers who support tax-subsidized rail on the

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Table 1: Urban Travel Fatality Rates by Mode, 1991–2001 Averages

	Bus	Commuter Rail	Heavy Rail	Light Rail	Urban Auto
Fatalities/Billion Vehicle-Miles	55	391	133	359	11
Fatalities/Billion Passenger-Miles	6	12	6	14	10

Sources: *Public Transportation Fact Book* (American Public Transportation Association), *Highway Statistics* (Federal Highway Administration), *Traffic Safety Fact* (National Highway Traffic Safety Administration)

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assumption that their lives will be made better when others leave their cars to ride trains may want to reconsider their position. Light rail's fatality rate of 359 per billion vehicle-miles of travel and commuter rail's 391 per billion vehicle-miles of travel make rail trains extraordinarily dangerous to be near. Occupants of automobiles routinely get the worst of it in any collision with a train.

Traffic crashes are not the only safety issue in public transportation. Crime is also a matter that must be considered in evaluating decisions to implement transit systems. Many cities have been or are seeking to add light-rail lines to their transit mix. One of the arguments used for replacing bus service with light-rail service is the perceived potential for light-rail stations to attract real-estate development. This may well be true, but it is not an unmixed blessing. Light rail also appears to attract an unusually high number of criminals.

Of all the transit modes, light rail has the worst crime rate (Table 2). Light rail's violent-crimes-against-persons rate (murder, rape, robbery, and assault) of 284 per billion passenger-miles is almost 50 percent higher than heavy rail (195) and three times higher than the rate for bus transit (97). Light rail's crimes-against-property rate (larceny, theft, burglary, and arson) of 779 per billion passenger-miles is 20 percent higher than heavy rail (641) and five times higher than the rate for bus transit (144). Consequently, it looks as though a decision to replace buses with light rail is very likely a decision that will bring more crime to an area.

There is nothing in the published literature that attempts to explain the higher crime rate for light rail. One can only speculate as to the possible causes. One hypothesis would be that since trains must stop at every station, criminals can be more assured of access to potential victims. In contrast, a bus driver may bypass a stop if he thinks it may be dangerous. Train stations may be more isolated, putting waiting victims in a known location that may not be easily visible to prospective witnesses. Rail also is more apt to involve so-called "park-and-ride" trips. The parking lots may be convenient locations for robberies. Cars parked for the whole day may invite break-ins. The possible reasons for these high crime rates cry out for more study.

Much of the energy put into transit has been to raise taxes in order to obtain more resources to implement more transit options. The focus has been on trying to provide the type of service that might attract drivers out of their cars and onto transit vehicles. Overlooked in this quest has been the potential negative impact on public safety. The data gleaned from published sources indicate that there are serious safety issues surrounding the operation of transit in our cities. Inasmuch as government is generally expected to promote public safety, the extraction of more tax dollars to build more rail-transit systems would appear to be undermining this key responsibility.

Table 2: 2001 Public Transit Serious-Crime Statistics

	Murder/Rape/ Robbery/Assault TOTAL	Murder/Rape/ Robbery/Assault RATE*	Larceny/Theft/ Burglary/Arson TOTAL	Larceny/Theft/ Burglary/Arson RATE*	Combined TOTAL	Combined RATE*
Bus	2,114	97	3,171	144	5,285	240
Commuter Rail	260	27	2,508	263	2,768	290
Demand Response†	13	15	13	15	26	30
Heavy Rail	2,765	195	9,084	641	11,849	836
Light Rail	408	284	1,120	779	1,528	1,063

*per billion passenger miles

†vans operating on variable routes and times

Sources: *2003 Public Transportation Fact Book* (American Public Transportation Association), Tables 6 & 45.

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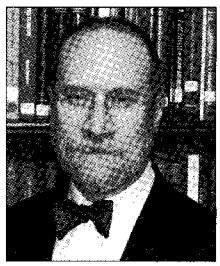
Full Context



BY SHELDON RICHMAN

In *The Wealth of Nations* Adam Smith famously wrote, "People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the publick, or in some contrivance to raise prices." It may seem strange that history's best-known advocate of the free market would cast such aspersions on business people. But there is nothing strange about it. A defense of the market, and of voluntarism in general, should never be mistaken for a defense of particular business interests.

Opponents of the free market love that quote from Smith. For obvious reasons they rarely add the sentences that follow: "It is impossible indeed to prevent such meetings, by any law which either could be executed, or would be consistent with liberty and justice. But though the law cannot hinder people of the same trade from sometimes assembling together, *it ought to do nothing to facilitate such assemblies; much less to render them necessary*" (book I, chapter X, part II, paragraph 27; emphasis added).

As Smith well knew, government often facilitates such assemblies. Effective "conspiracy[ies] against the publick" would be impossible without state support. Absent political privilege, "contrivance[s] to raise prices" would crumble under the pressure of free competition. It takes a state to make a tariff, a price support, or a punitive tax or regulation on one's competitors.

Smith's book was a brief against mercantilism, the nationalistic system of business privilege. But we sometimes forget that the economic system that succeeded mercantilism was not free of all mercantilist features. Especially in the second half of the nineteenth century and at the hands of the Republican Party, mercantilism (in the form of Henry Clay's old American System) had wide influence at the national level. (The states had their own modest versions earlier in the century.) Its program consisted of protective tariffs, taxpayer-financed infrastructure projects ("internal improvements"), regulation of private infrastructure, a national bank for credit manipulation, and other forms of government intervention intended to guide society's development and in the process benefit the well-connected business class. A good deal of land was also parceled out to politically favored interests, such as most of the major railroads. Dominant business figures did not oppose this program; on the contrary, they championed it because they stood to gain from the above-market prices, lucrative government contracts, and burdens on smaller competitors.

Later, the Progressive Era "reforms" were not only supported, but were often proposed, by big business. Meat inspection, railroad regulation, drug-safety monitoring, and policing of competition were activities favored by the major players in the relevant industries. It is not widely appreciated how much big-business support the New Deal had (or how the New Deal actually began under Hoover). The industry codes enforced by the National Recovery Administration were a godsend to businessmen who for years had striven, unsuccessfully, to create stable cartels to assure long-run profits. Government economic planning during World War I had given many businessmen (and bureaucrats) a taste of what it was like to run an economy. They liked it enough to return to Washington during Franklin Roosevelt's tenure in the White House.

What today is called rent-seeking, exploiting others through political means, was as common in earlier times as it is now. It was a rare business proprietor who favored laissez faire. Why risk your money in the unpredictable marketplace when you could have stable prices and profits with government intervention? Even an income tax might be a small price to pay for that safety. Most business people were uninterested in moral philosophy, economic theory, and ideology. The shortest route between them and a nice return on investment usually went through the statehouse or the Capitol.

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No knowledgeable champion of free markets will be surprised by any of this. The problem is that we too often forget it in the heat of current controversies. By dropping the historical context we weaken our case and sound like defenders of the corporate state, the opposite of laissez faire.

This has been pointed out before. Kevin Carson, who calls himself a "free market anti-capitalist," writes in *Studies in Mutualist Political Economy* that many libertarians "use the term 'free market' in an equivocal sense: they seem to have trouble remembering, from one moment to the next, whether they're defending actually existing capitalism or free market principles."

For example, several months ago opportunistic members of Congress proposed a windfall-profits tax on the oil companies because gasoline prices had jumped during the hurricane season and profits had risen dramatically. In arguing against the tax, many libertarians (and conservatives) explained why in a free market, prices and profits would rise under the current circumstances. Thus higher prices and profits warranted no government intervention.

Fine. The economic theory and conclusion were impeccable. But something was missing, and this gap gave credibility to the free market's adversaries. What was missing? An acknowledgment of the contemporary effects of the long period of pro-business interventionism, what Carson calls "the subsidy of history." For many years oil companies have benefited from a system of federal and state favoritism. Much U.S. foreign policy has the effect of forcing the taxpayers to pick up the huge tab for stabilizing the companies' sources of crude oil. All of this has distorted investment, prices, and, therefore, consumer behavior, and it's hard to know what the oil industry—or indeed the entire economy—would look like without the distortion. The rippling effects have been pervasive and substantial.

In sum, the companies are not creations of the free market. And if we defend them as though they are, we will sound naïve at best and like apologists for the corporate state at worst. That diminishes our efforts to win the public to our position. Let us never be guilty of supporting, even implicitly, *the socialization of costs*, for there is no surer way to undercut the case for the privatization of profits.

Labor Legislation

Another example: Free-market advocates frequently criticize unions and their supporting laws. Any government intervention deserves to be criticized, but once again the context is often dropped. The context includes the fact that the business elite historically supported labor laws, even if in the end they objected to the precise form of the National Labor Relations Act and other enactments. Business-backed social-reform organizations, such as the National Civic Federation and the American Association for Labor Legislation, long had proposed labor laws in the belief that they were the path to labor peace and the end of wildcat strikes. "Respectable" union leaders would be brought to the corporate-state table as responsible junior partners who would discipline their unruly elements. Moreover, industrywide collective bargaining would have a cartelizing effect on American industry, reducing the "cutthroat competition" that was so unsettling and that worked to the advantage of upstart rivals.

While we should hit at government intervention in the labor market, as everywhere else, we must hold the context and never fail to point out that such intervention was integral to the system enacted largely at the behest of the dominant business interests. It is reasonable to believe that workers would have *more* bargaining power if all corporate privilege were abolished and competition were truly unfettered. If talk of the corporate state and exploitation sounds left-wing, it's only because laissez fairists seldom talk about those things. But we should. They are *our* issues.

Context-holding is not just of academic interest; it has strategic implications. If we keep in mind that the current threat to liberty is the centrist corporate state, we will see that a top priority is the repeal of all corporate subsidies, even the most subtle kinds.

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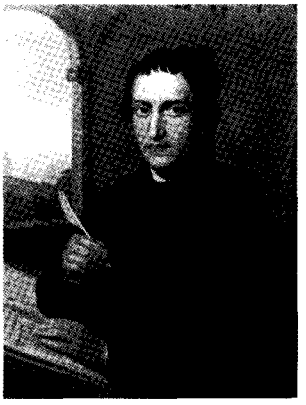
Antonio Rosmini: Philosopher of Property

BY ALBERTO MINGARDI

Over the past several decades *The Freeman* and FEE have introduced the liberty-loving public to many great thinkers of the past who otherwise would have fallen into oblivion. Frédéric Bastiat, whose masterpiece *The Law* was rescued by Dean Russell's translation in 1950 and has since become almost required reading among American libertarians and conservatives, is just the first example that comes to mind. One great classical-liberal thinker who today is nearly forgotten even in his own country, Italy, is Antonio Rosmini. This year marks the 151st anniversary of his death.

A man endowed with magnificent talents—Catholic priest, founder of orders, theologian, and scholar—Rosmini left behind an enormous body of scholarship and writings. The still-incomplete critical edition of his works will comprise more than 100 books. His contributions covered a wide variety of subjects, ranging from religion and metaphysics to anthropology and economics. In this vast landscape of intellectual achievement, political philosophy and economics occupy but a small lot, but Rosmini's contributions in these fields are noteworthy and often illuminating. He held the defense of property as his central concern for the building of a just political order.



One great classical-liberal thinker who today is nearly forgotten, even in his native Italy, is Antonio Rosmini (1797–1855).

In a footnote in the second volume of *Law, Legislation and Liberty*, F.A. Hayek noted that Rosmini's *The Constitution Under Social Justice* made "more generally known" the term *social justice* "in its modern sense." But Rosmini's understanding of these words was quite different from the one widely accepted today. He was perhaps the staunchest defender of private property in nineteenth-century Italy.

Rosmini was born March 24, 1797, into one of the richest and noblest families in the city of Rovereto. Having learned to read at home, mainly from the Bible, the young Antonio began school at the age of 7, completing the normal course, and simultaneously educating himself as a polymath in his uncle's library. The young man's higher studies were completed in theology at the University of Padua (a notable center of Aristotelian philosophy). He graduated in 1823.

Even at this early stage of his life, Rosmini was remarkable not only for his studiousness but also for his spiritual intensity. But if he enjoyed a restless life of meditation, studies, and priestly duties, he did not refuse to be engaged in the daily political affairs of his time.

His political philosophy developed and assumed precise form between the 1820s and the 1840s. Rosmini began his lifelong journey in political thinking as a critic of the French Revolution: as a Catholic he understood its limits and dangers, and was strongly influenced by the writings of restorationist thinkers such as François René de Chateaubriand, Luis de Bonald, Joseph de Maistre and, especially, Karl Ludwig Haller.

It was perhaps because of the 1821 uprisings in Italy that Rosmini started working on a major work on politics in 1822—his *Politica prima*. Though it consumed

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much of his time during 1822–1826, it was never published in his lifetime. But it served as a preparatory work for other more ambitious writing in the same field. In particular, by 1839 Rosmini completed his *Political Philosophy* and by 1845 his immense masterpiece *Philosophy of Law* and *Theodicy*. These works, with the subsequent *The Constitution Under Social Justice* (1848), a blueprint for a liberal constitution for the yet-divided Italy, form the consistent body of his political thought.

In 1848 Rosmini joined Pius IX in Rome, where the pope initially welcomed him and (after the assassination of Pellegrino Rossi) made him a cardinal and prime minister of the Papal states. However, as soon as the Roman Republic was established and the pope was forced to flee to Gaeta, this relationship apparently broke down. Rosmini's *Delle cinque piaghe della santa Chiesa*, where he preaches renovation within the borders of the Church, and *La Costituzione secondo la giustizia sociale* were listed in the Index of Forbidden Books. This caused him immense pain.

Dismissed by the pope, Rosmini returned to his house in Stresa (on Lago Maggiore) where he peacefully spent the rest of his life. But the polemics on his writings did not end with his death in 1855. The Jesuits were particularly fierce in attacking his work. In 1887 the Sant'Uffizio (Holy Office—known now as the Congregation for the Doctrine of the Faith) promulgated a decree, *Post Obitum*, which stated that 40 propositions extracted from Rosmini's works had not "conformed to the Catholic truth."

This condemnation lasted until the pontificate of Karol Wojtyla. John Paul II opened the cause of beatification of Rosmini, and in his encyclical *Fides et Ratio* mentioned him among "significant examples of a process of philosophical enquiry that was enriched by engaging the data of faith." Finally, on July 1, 2001, the Congregation for the Doctrine of the Faith, in a *Nota* signed by then-Cardinal Joseph Ratzinger (the future Pope Benedict XVI) and then-Archbishop Tarcisio Bertone, repealed the *Post Obitum*. Ever since, Rosmini's works have attracted growing interest in Catholic circles.

Thinking Matured Early

Rosmini's thought on political and social issues, such as individual rights, property, the meaning of the French Revolution, and social justice, matured at an early stage of his life. Son of a loyal servant of the Habsburg Empire, the young Antonio distinctively absorbed and developed a lasting distrust toward the ideals and means of the French Jacobins. Commentators argued that Rosmini was very much in tune with the wave of anti-revolution thinkers in his first years' meditating on political questions, turning to classical liberalism later on.

However, the concern for private property stands as a landmark in the development of his thinking. In his eulogy for Pius VII, which embodied the essence of his political thought, Rosmini dealt to a certain extent with the question of property rights, making their protection the difference between "a system based upon justice" and one grounded on "universal utility."

The first (justice) is the tradition of thought endorsed by Pius VII: "It decrees: *Consecrate property!* Everybody's own must be untouchable, not because of the power he may or may not retain but because of his own dignity: This is the only possible equality among men. Do not let charity, nor its name, be associated with crimes: It must not infringe those seals posed by God on everyone's property." Rosmini openly criticized redistributive policies, which limit and seize private property in the name of compulsory benevolence.

The second system (universal utility), which was propagated by the Napoleonic armies all over Europe, was instead "not generated by the experience of centuries, not by the course of human things, nor by the study of the eternal truth; it is rather the product of the fancies of those who nowadays call themselves philosophers." The output of such a system is the attempt to "sacrifice any property to an illusion of public good."

In essays composed between 1822 and 1825, Rosmini dug deeper into the question of property, ending up enunciating two principles of justice that would be the mainstay of his political thought for the rest of his life: "Everyone's property must be so sacred as to not be violated for any reason" and "Original appropriation has to be considered a legitimate entitlement of ownership, as long as the appropriated thing was not yet someone else's property."

In the same work Rosmini closely linked the defense of property with the problem of guaranteeing everyone's

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right to life. When all property is safe, life will never be in danger. The scope of society is thus the protection of property, because once property rights are guaranteed everything follows, and personal security comes as a consequence of the defense of the rights of ownership.

However, Rosmini's system was to find its final formulation later on. Between 1837 and 1844 he published the two volumes of his *Political Philosophy* ("The Summary Cause for the Stability or Downfall of Human Societies" and "Society and Its Purpose"), followed by his magnum opus, *Philosophy of Law*.

Perfectism and Socialism

Political Philosophy is clearly indebted to the studies of anthropology and moral science that Rosmini conducted in those very years. His anthropological realism applied to the facts of politics brought Rosmini to reject boldly any ideological "idealization" of social affairs, which he saw as inherent in some of the leading doctrines of his time. Rosmini characterized "perfectism" as a "system that believes perfection to be possible in human things, and which sacrifices today's goods to an imaginary future perfection. . . . [I]t consists of arrogant prejudice, for which human nature is judged too favorably."

Judging political options from "pure hypothesis," the risk is to elaborate theories that do not rest on a proper consideration of the "natural limits of things." Rosmini's target is represented mainly by the utopianism of socialists, who dream of a property-less society. Human society without property, however, is impossible because the "law of property" confronts men "with the mere alternative, either to accept it, or to eat themselves one each other." The absence of property will produce misery and need, which in turn will provoke crime and widespread aggression, which is the contrary of society itself. Ideology, for Rosmini, can "blind" men to the extent of not recognizing the importance of this institution.

This realistic vision of human beings and human societies is at the core of Rosmini's feelings toward the state: "Government is made of persons who, being men, are fallible." Today's readers will find his polemics against perfectism similar to Hayek's against central planning; like Hayek, Rosmini emphasized that legislators cannot be presumed omniscient, and he also put the responsibility for making meaningful decisions in the hands of individuals.

Indeed, in the essay "On Communism and Socialism," written in 1847 after Pius IX's encyclical *Qui Pluribus*, Rosmini called utopians "false sages" and vindicated individualism by saying that "a man is not a machine," meaning that he is not as mechanically predictable as prophets of planning would like him to be. These "monstrous utopias," he wrote, are "the grave of liberalism and of any desiderable progress": communism and socialism, "far from growing the liberty of men and society, provide for them the most unheard and absolute slavery, oppressing them under the heaviest, most despotic, most picky, immoral and impious of all governments."

It is in *Philosophy of Law* that Rosmini explained in full detail his account of natural law. For him, the fundamental goal to be achieved is the protection of the human person—"the first seat of freedom." In his system "juridical freedom means nothing but the power that the person-proprietor has over his own thing, with which he can morally do what he pleases."

Boundaries for each individual's legal actions are to be found in the equal guarantee of everybody else's freedom. Instead of formulating a "law of equal freedom," which he found problematic insofar as this mutual respect of individual rights was not rooted in reality, Rosmini resorted to property as a measure of freedom. For him "property constitutes a *sphere* around the person in which the person is the *center*. No one else can enter this sphere, and no one can separate from the person that which is inherent in him as a result of the connection between him and what is his own. This kind of separation would cause *suffering* to the person. But suffering (considered in itself), when imposed upon a person, is forbidden as evil by the moral law." According to Rosmini, the "concept of freedom does not exist if completely deprived of property."

This argument was not tempered by the existence of social inequalities. Property is a projection of the profound individuality of the individual, a "social representation" of him. "Conceiving equality in properties is like conceiving the inconceivable existence of identical individuals, that is, of non-individual individuals," Rosmini wrote. Respecting property is thus respecting the

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other as a human person: "properties have to be reciprocally respected because *the thing* of the other is *the other* [himself]."

A Constitution Under Social Justice

In his exercise in applied constitutionalism, the 1848 *Constitution Under Social Justice*, Rosmini held dear all these principles. As a critic of the French Revolution, however, he could not concur with those who wanted to establish a liberal society in Italy by following the way opened by the French in 1789.

In particular, he identified a major problem: the balance between democracy and freedom. The constitutions written under French influence all tended to "promote in all citizens an inordinate ambition to conquer an always higher grade in public society," "open the door to corruption," and "not guarantee enough and in the fullest extent the freedom of citizens." To correct these inner defects, Rosmini proposed two devices: "the institution of the tribunal of political justice" and "the franchise proportioned to the direct tax a citizen pays to the state."

The tribunal of political justice was, in Rosmini's view, a device by which a jury (elected by every citizen) would have the opportunity to settle infringements of individual rights. This institution originated from Rosmini's profound conviction that "all rights cannot be represented through a majority vote. A majority, by its nature, represents only the greater part of the voters, not all. The nature of law, however, is such that it must be fully respected in all members individually, not simply in the majority: Ninety-nine against one would be no more just than one against ninety-nine. Respect for a right does not depend on the number of persons who possess it or defend it, but rather, requires equal respect in any subject whomsoever."

The political tribunal was to be an institution regarded as the guardian of everyone's rights, in spite of the fact that majorities come and go. It was conceived as an instrument to scrutinize positive laws—a *custos* of people's rights vis-à-vis the government.

The idea of franchise proportioned to the amount of taxes paid, and thus to the property owned by each member of a society, was prompted by similar considerations. Having carefully observed the march toward despotism of those states conceived in a way consistent with the ideals of the French Revolution, Rosmini argued that an unqualified franchise "violates the right of property," "rapes the property itself," and "opens the door to corn laws and communism." Hence, Rosmini designed a system in which owners of large estates would elect the first chamber, owners of small estates would elect the second, the franchise would be proportioned to the income tax paid, and nonproperty holders would not have any right to vote. A constitution, according to Rosmini, has to state the juridical equality between citizens, but never a substantial equality to be achieved via redistribution, which "would destroy any justice."

Rosmini's point here is that an unqualified franchise opens the door to redistribution, putting property at the mercy of an elected majority. "Socialism and communism are but the logical consequence of universal franchise in the election of the deputies. If this electoral universal right to vote is just, then we must say that it is just that he who does not have anything puts his hand in the pocket of one who possesses something and steals what he wants."

It should be observed that Rosmini's foundation of franchise on property served also the purpose of legitimizing taxation itself. "Taxation" and "representation" should be married, because those who are harmed by taxation have to be at the same time those who can decide the size and the scope of taxation—that is, to what extent they are to be harmed. If those who pay taxes do not directly consent to that payment, "how can we say that a given nation is free?" This is the reason he maintained that the progressiveness of taxation was nothing but a form of "masked theft."

A thinker of great clarity, though not endowed with a clear writing style, Rosmini belongs to the pantheon of the great classical liberals of the nineteenth century. An admirer of Alexis de Tocqueville, Adam Smith, and Jean Baptiste Say, this Catholic priest understood better than many liberals the most important problem that endangers the survival of liberty in modern societies: the uneasy marriage between property and democracy.

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The Government Licensing Scam

BY P. GARDNER GOLDSMITH

Last May a man named Mike Fisher, from the town of Newmarket, New Hampshire, performed an act for which he will pay dearly under penalty of law.

He engaged in a consensual commercial transaction with another willing individual.

He performed a manicure.

Mike Fisher, outlaw, enemy of the realm, planted himself outside the state Board of Cosmetology, invited his customer to join him, and committed the unpardonable sin of performing a manicure without a license granted by the very agents who work inside.

The agents didn't remain inside for long.

As Mike lifted his sterile tools to work on his client (certain names have been withheld to protect the innocent), a bureaucrat from the all-powerful Board of Cosmetology emerged to hand him a sheet of paper. On the sheet was information explaining why he was in violation of state law, a fact of which Mike was already aware, since he intended to break the law. He had already been "spoken to" by state Attorney General Kelley Ayotte the week before.

When Ms. Ayotte asked him not to perform his "stunt," Mike nicely said he fully intended to provide the service to anyone who was interested in hiring him. When he kept his word, he was promptly arrested by the Concord, New Hampshire, police.

Mike spent the night in jail, because he was unwilling to pay for either the license or the mandatory "training" required to get it. Instead, he studied and trained himself, advertised to others that he was going to offer his services at a low price, and willingly accepted a customer, under the watchful eyes of agents of the Granite State.

The absurdity of arresting a man for fixing a client's fingernails is obvious. But there are less obvious, though just as important, lessons to be learned about licensing, lessons that can be applied to many other fields of human endeavor.

Call this crazy, but when was a government established to stop us from entering into a peaceful, noncoercive arrangement with someone else?

Certain people watching what happened to Mike Fisher recalled that we supposedly formed governments to stop aggressive behavior directed at others. Was Mike Fisher on the attack? "Look out! Serial manicurist on the loose!" Were those the cries of the people around him?

Not at all. They supported his effort to work free of state interference and to invite others to accept his services for a fee if that was their wish. Mike Fisher was engaged in free enterprise; but evidently that type of activity is unacceptable nowadays.

The absurdity of arresting a man for fixing a client's fingernails is obvious. But there are less obvious, though just as important, lessons to be learned about licensing, lessons that can be applied to many other fields of human endeavor.

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Licensing is an act of aggressive exclusion. Such policies supposedly are enacted for the protection of the populace. By creating a government-enforced "permission agency," the state protects us, the innocent and uninformed customers, from reckless, money-hungry, fly-by-night charlatans who would bilk us of our hard-earned dough while possibly putting our health or property at risk.

The trouble, or one of the many troubles, with this assumption is that government licensing does not actually do what it is ostensibly supposed to do. Government agents cannot be everywhere to watch everyone all the time, and thus the threat of license revocation becomes meaningless when a license-holder rarely sees a state functionary appear to check on his standards and credentials.

Instead, it is the combination of market incentives and punishments that drives entrepreneurs to perform to the best of their abilities. It is the enticement of more profit when one does a good job and the threat of losses when one does not that keep businesses performing at their highest level. Customers enter shops every day and reward businessmen for exemplary performance. Agents of the government do not, and cannot. Thus when it comes to not only keeping a businessman on his best behavior, but also offering him incentives to excel, government coercion is no match for market competition.

The second reason government licensing does not actually do what we are told it is designed to do is that we are not told the truth.

What licensing is actually designed to do is to exclude lower-priced competition, pumping up the incomes of the specially privileged, while providing more money to the state in licensing fees. The exclusion of lower-priced competition is a destructive force all its own. It not only represents the suppression of individual choice by the government, and those using it to gain a competitive advantage; but it also diverts capital from where consumers would have directed it. Thus even if a handful of incompetents are stopped by licensing laws each year, the vast majority of consumers, in being prevented from shopping among all potential market participants, lose far more in opportunity costs than they gain in supposed security.

As Melvin D. Barger noted in *The Freeman* of April 1975: "Under today's licensing requirements, Thomas Edison would not have been certified as an engineer, Abraham Lincoln would have been barred from the practice of law, and Albert Einstein could not have been even a high school science teacher."

What licensing is actually designed to do is to exclude lower-priced competition, pumping up the incomes of the specially privileged, while providing more money to the state in licensing fees.

Products and Services Never Appear

Through licensing, customers lose more than the opportunity to buy services at lower prices, allowing them to have money for other known products and services, and expanding an already vibrant economy. They also lose the opportunity to discover the myriad products and services that would appear if unlicensed businessmen were allowed to enter the market.

When Mike Fisher committed his terrible crime in front of the New Hampshire Board of Cosmetology, he not only represented himself and his own interests; he also represented all the abstract benefits consumers have been unable to acquire in the marketplace because of the absurd notion that the state must give permission for individuals to engage in peaceful commerce. Since there has never been a government anywhere that produced a product or provided a service without first taking from someone against his will, the notion of bureaucrats increasing our capacity to operate an economy is truly laughable.

It was not reported if Mike Fisher laughed as they took him away in handcuffs.

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Arthur Seldon's Contribution to Freedom

BY NORMAN BARRY

Some politicians, so important today, are forgotten by next year. Events that seem so cataclysmic in our own times are soon but distant memories. But the great ideas live on long after their authors' death. We must put into that category the work of Arthur Seldon—cofounder, with Lord Harris of High Cross, of the Institute of Economic Affairs (IEA), London—whose death last October 11, at age 89, we mourn.

From obscurity and complete intellectual unfashionability throughout the 1950s and 1960s, Seldon and a distinguished cadre of writers managed to influence a whole generation of economists and writers on the market and limited government. At a time when the intellectual world was dominated by the Keynesian-collectivist consensus, Seldon successfully educated a new generation into a fresh way of thinking and introduced to a British audience such "foreign" economists as Milton Friedman and F. A. Hayek. And though not naturally a conservative—he always called himself an Old Liberal—he was a great influence on Margaret Thatcher, and indeed many of her policies originated in Lord North Street, Westminster, London, home of the IEA.

Arthur Seldon (1916–2005)
London Daily Telegraph

Born in 1916 into relative poverty to Jewish immigrant parents in the East End of London, Seldon worked his way into the London School of Economics (LSE), where he came under the influence of Hayek, a recently appointed professor. It was an influence that was never to desert him. He quickly learned that almost everything the government does the market and the private sector could do better. Most important, he realized that if you want to advance the interests of the working class, free-market capitalism always beats the government. This was the beginning of a lifelong campaign against state welfare. From his earliest days he understood that spontaneous working-class organizations like the friendly societies provided better health care, old-age pensions, and unemployment benefits than the vast state bureaucracies that replaced them.

The IEA was set up in 1957, with the backing of a prosperous chicken farmer, Antony Fisher. Fisher, a convinced free-marketer, had learned from Hayek that to influence events, it is better not to go into politics, but rather to produce ideas. That is why he financed the IEA and many other free-market think tanks throughout the world.

As editorial director, Seldon quickly set about recruiting some of the best names in free-market ideas. He created a "house style" that was remarkable: he managed to persuade writers to communicate in simple, concise prose without in any way sacrificing the rigor of their arguments. As one who was a little frustrated at seeing his virginal text almost violated by the red pen of Arthur Seldon, I quickly came to realize that he was right all along and that he had transformed yet another dreary academic paper into something that might even attract

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the attention of the conventional leftwing press.

Someone very receptive to Seldon's approach was Milton Friedman, who always had a genius for conveying complex ideas in lucid prose. Friedman led the IEA's onslaught on Keynesianism from the early 1960s. One of the many reasons for the "New Right's" eventual triumph over the Old Left was the clarity, as well as the perspicacity, of its arguments. Compared to the turgid and incomprehensible style of the typical unreadable Oxbridge academic publication, a piece from the IEA was always intellectually exciting and extraordinarily well-written.

Ever anxious to keep his readers up to date with new thinking, Seldon quickly saw the significance of Public Choice theory, which was emerging in the 1960s. Distrustful of politicians, he never believed that they were disinterested promoters of the public good, but rather were self-interested utility maximizers beholden to interest groups that made their careers possible. So naturally he was attracted to American theorists like James Buchanan (a Nobel Prize winner in 1986) and Gordon Tullock. In fact, some of their book-length works were published in easily accessible form by the IEA.

Seldon was a natural anarchist who delighted in offending the statist establishment. This reached its apogee in 1968 with the publication of Mike Cooper and Tony Culyer's *The Price of Blood*. This presented the quite shocking idea that shortages in hospitals would be solved if that precious human commodity were bought and sold like any other good. This argument offended the sentimentalists, who believed that an inexhaustible supply of altruism was just waiting to be tapped, and the welfare establishment, which did not want the intervention of the tasteless and unruly market into an area that was the exclusive preserve of the well-meaning state.

Seldon himself was a prolific writer. His best work was probably on welfare policy, in which he relentlessly exposed the denial of choice and the dull inefficiency that the state produced in health and pensions. His first paper for the IEA was a stunning piece on the inequities and inefficiencies of the state pension system, a subject that was to bother him all his life. In the 1980s he published some remarkable research which indicated that the British public preferred more choice and private provision in welfare and was prepared to pay for it. All this is concealed in the vote-maximizing practices that go on in regular elections. He was an indefatigable proponent, with his wife, Marjorie, of Friedman's idea of vouchers in education. Again, this illustrated his desire that state bureaucracies and trade unions should be removed from decisions that affect ordinary people and their families. But perhaps his finest work was the sadly neglected book *Capitalism* (1990). Here he celebrated not only the market system's efficiency, but also its contribution to human freedom. He was working to the end against the state. His seven-volume works are being completed by the IEA, and only then will a full evaluation be possible.

> From obscurity and complete intellectual unfashionability throughout the 1950s and 1960s, Seldon and a distinguished cadre of writers managed to influence a whole generation of economists and writers on the market and limited government.

Seldon was a prominent member of the Mont Pelerin Society and an honorary fellow of the LSE and the private University of Buckingham, which was fathered by the IEA. He will be sadly missed.

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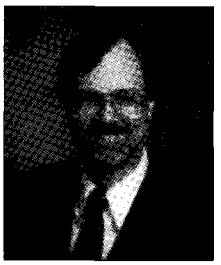
The Origin of American Farm Subsidies



BY BURTON FOLSOM, JR.

In the United States how did we go from having no role for the federal government in farming to having government intertwined in all aspects of farming from planting to harvesting to selling crops?

The Constitution is clear on the subject. Article 1, Section 8, provides no role for the federal government in regulating American farmers. And that is the way it was (with rare exceptions) until about 1930.

American farmers dominated world markets under the free-enterprise system. They were ever creative in figuring out how to gain larger yields of crops through mechanization or through improving crop strains, such as hybrid corn. Americans have been the best-fed people in the world.

Even during times of economic hardship, the federal government largely stayed out of the farm business. For example, during the mid-1890s, when we had a recession and 18 percent unemployment, the secretary of agriculture, J. Sterling Morton, focused on cutting budgets, not pushing subsidies. He chopped almost 20 percent off his department's budget, which allowed taxpayers to keep and spend more of their cash, rather than sending it to Washington. Morton fired unproductive bureaucrats, starting with a man who held the job of federal rainmaker. He also slashed the travel budgets as well.

Even during times of economic hardship, the federal government largely stayed out of the farm business.

Furthermore, when beet-sugar producers came to Washington eager for some kind of special help, Morton said, "Those who raise corn should not be taxed to encourage those who desire to raise beets. The power to tax was never vested in a Government for the purpose of building up one class at the expense of other classes."

That philosophy, written in the Constitution by men who were themselves mainly planters and farmers, governed American farming for about 140 years. Even after World War I, when many farmers had to readjust from the high prices commanded during the war, Americans were still determined not to tax one economic group to support another.

One proposal during the 1920s, the McNary-Haugen bill, would have fixed prices of some crops by a complicated bureaucratic system and passed the costs on to American consumers. When Congress, under pressure from some farmers, passed the bill, Coolidge vetoed it.

In his veto message, Coolidge echoed major themes of limited government. "I do not believe," Coolidge said, "that upon serious consideration the farmers of America would tolerate the precedent of a body of men chosen solely by one industry who, acting in the name of the Government, shall arrange for contracts which determine prices, secure the buying and selling of commodities, the levying of taxes on that industry, and pay losses on foreign dumping of any surplus."

Coolidge then added, "There is no reason why other industries—copper, coal, lumber, textiles, and others—in every occasional difficulty should not receive the same treatment by the Government." He concluded, "Such action would establish bureaucracy on such a scale as to dominate not only the economic life but the moral, social, and political future of our people."

The next two presidents, Hoover and Roosevelt, broke the precedents set by Morton, Coolidge, and 140 years of American history. The Great Depression hit the United States, and both men argued that others must be taxed so that some farmers could be subsidized.

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Hoover's program was the Farm Board, which fixed price floors for wheat and cotton only. If market prices went below 80 cents a bushel for wheat and 20 cents a pound for cotton, the federal government would step in to buy the crop, pay to store it, and hope to resell it later for a decent price.

The Farm Board had disastrous unintended consequences for almost everyone. For example, many farmers who typically grew other crops shifted to wheat or cotton because they were protected and now provided a secure income. The resulting overproduction forced down the prices of both crops below the price floors, so the government had to buy over 250 million bushels of wheat and 10 million bales of cotton. The costs of buying and storing these crops quickly used up the program's allotted $500 million. After about two years of buying surpluses, the government finally just gave them away or sold them on the world market at huge losses.

When Roosevelt became president, he also intervened in the farm business, but in a different way. He supported the Agricultural Adjustment Act (AAA), which dealt with the problem of oversupply by paying farmers not to produce. As for farm prices, they would be pegged to the purchasing power of farm prices in 1910; millers and processors would pay for much of the cost of the program, which of course meant an increase for consumers in the price of everything from bread to shirts.

Two concepts in the AAA are fascinating. First is the idea that because farmers overproduce some crops the government ought to pay them not to grow on part of their land. Second is the idea of "parity," that farmers ought to be protected from falling prices by fixing them so that they were comparable to the purchasing power of their crop in the excellent years 1909–14.

Let's tackle both of these concepts one at a time. First, Supreme Court Justice Owen Roberts voted with most of the rest of the Court to strike down the AAA as unconstitutional. In doing so, he posed the following analogy:

> Assume that too many shoes are being manufactured throughout the nation; that the market is saturated, the price depressed, the factories running half-time, the employees suffering. Upon the principle of the statute in question Congress might authorize the Secretary of Commerce to enter into contracts with shoe manufacturers providing that each shall reduce his output and that the United States will pay him a fixed sum proportioned to such reduction, the money to make the payments to be raised by a tax on all retail shoe dealers or their customers.

His conclusion echoed that of Coolidge's almost ten years earlier: "A possible result of sustaining the claimed federal power would be that every business group which thought itself under-privileged might demand that a tax be laid on its vendors or vendees, the proceeds to be appropriated to the redress of its deficiency of income."

Parity for Everyone?

In a similar vein, economist Henry Hazlitt challenged the concept of parity by noting that if we gave parity to farmers, why not to other groups? General Motors, for example, was in a deep slump during the Great Depression. Why not a parity price for cars? "A Chevrolet six-cylinder touring car cost $2,150 in 1912," Hazlitt observed, "an incomparably improved six-cylinder Chevrolet sedan cost $907 in 1942; adjusted for 'parity' on the same basis as farm products, however, it would have cost $3,270 in 1942."

Despite temporary resistance from the Supreme Court and American consumers, the farming industry, even after the Great Depression had long vanished, was and is dominated by the ideas of payments to reduce crops and fixing prices at higher-than-market levels. American politicians, under pressure during hard times, sacrificed the Constitution and economic sense for votes at the ballot box.

Once some farmers had their subsidies, they were viewed as entitlements and were hard to take away, even when the farm crisis was over. Perhaps the new Justice Roberts will mark a return to the earlier Justice Roberts, and the Supreme Court will limit the government to its historical role as an enforcer of contracts and a protector of private property.

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The High Cost of Misunderstanding Gasoline Economics

BY ARTHUR E. FOULKES

National emergencies, wars, natural disasters—all these things tend to bring about expanded government power.[1] Hurricane Katrina was no exception. In addition to promising to spend billions of dollars of other people's money allegedly to "rebuild" New Orleans and other stricken areas, politicians have been equally generous with other people's gasoline supplies. In many states, anyone attempting to sell gasoline at prices deemed socially "unconscionable" risks heavy fines.[2]

Government officials all across the country joined the expanding chorus. President Bush led the way early in the disaster's aftermath calling for "zero tolerance" for looters, scammers, and price gougers "at the gasoline pump."[3] Other politicians echoed his message.

None of this is surprising. Even before Katrina knocked out half the Gulf of Mexico's oil production (sending gas prices soaring to over $3 per gallon Labor Day weekend), politicians and "consumer advocates" were calling for investigations into gasoline prices, which had been rising for about two years, reaching $2.64 cents per gallon by last August 30.[4] Indeed, this has become commonplace; since 1973 the government has investigated the oil industry about once every two years.[5] A 2002 Senate investigation into the oil industry purported to have discovered oil companies "manipulating the market." However, the report, sponsored by Senator Carl Levin of Michigan, was in the words of economist William Anderson "an exercise in economic illiteracy."[6]

> Much of the support for price controls stems from a lack of understanding of where prices come from. Many politicians and other critics of markets believe that market prices (or at least "fair" market prices) can be calculated using production costs.

There is no mystery about recent rising gas prices. Strong economic growth in China, along with improved growth in the United States, has been pushing on the demand side of the gasoline market for some time. Meanwhile, political unrest in Venezuela and Iraq along with strict environmental restrictions and regulations in the United States have helped keep the supply side anemic and uncertain. The result is unsurprising—strong new demand with insufficient new supply (coupled with uncertainty) means higher prices at the pump.

Environmental regulations are often blamed for the fact that no new refineries have been built in the United States since 1976; however, the Cato Institute's Jerry Taylor and Peter Van Doren point to other reasons. They write that "meager" profits in the refining business over the past 30 years, cheaper imports, and the fact that it is less expensive to add capacity to an existing refinery than to build a brand-new one have all kept the number of refineries from rising. They note further that while there are fewer refineries than 30 years ago, "[d]ramatic improvements

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in the operational efficiency of oil refineries" have actually permitted domestic gasoline production to increase "by 20 percent since the last oil refinery was built."[7]

Hurricane Katrina merely made the prevailing situation worse. Oil prices peaked at over $70 dollars per barrel shortly after the storm, while average U.S. gasoline prices peaked at $3.07 in early September, "just a nickel shy of the inflation-adjusted record of $3.12 averaged over March 1981."[8] Prices fell significantly after that, before creeping up again as the winter came on. The public was nervous and angry; politicians were quick to respond.

No one likes paying more for gasoline (except maybe folks who have always resented America's relatively cheap gasoline, its SUVs, and other signs of bourgeois opulence), but government-imposed price restrictions would only make matters worse. By interfering in the market's pricing mechanism, price controls simply hinder the ability of entrepreneurs and investors to provide the goods and services consumers desire most.

Much of the support for price controls stems from a lack of understanding of where prices come from. Many politicians and other critics of markets believe that market prices (or at least "fair" market prices) can be calculated using production costs. For example, they believe it is evidence of gouging if a gas station raises its pump price on news of higher oil prices—even if the gas sitting in the station's fuel tanks was purchased days or weeks earlier at a lower price. This thinking is mistaken on at least two counts.

First, "production costs" (themselves actually impossible to calculate since they are, in reality, subjective opportunity costs) don't determine a good's current market price. While it is true an entrepreneur will use his estimated accounting costs of production when deciding whether to produce a good or service, the actual market price of the finished good is a result of consumer desire to obtain the particular good as well as the ability and willingness of sellers to provide it. In other words, price is a function of supply and demand.

Second (and along the same lines), prices for final goods do not have to wait for immediate input prices to rise before they can change. The fact that retail gas prices skyrocketed on the news of Katrina's devastation to the Gulf's oil production—long before new, more expensive gasoline from the Gulf reached those stations—is no proof of any wrongdoing. On the contrary, it is a blessing that the price system can work so quickly.

News of increased demand for housing in a community (say, a new factory is coming to town with 10,000 employees) would immediately drive up the price of housing there. Housing prices might double or triple in a month, regardless of how much people paid for their houses. In a free market these higher prices would rapidly signal producers to redirect scarce resources—lumber, labor, cement mixers, and so on—from places where they are less urgently sought to where housing prices are rising. Likewise, if a plant closing in a community meant there would soon be a housing glut, home prices would immediately fall, discouraging the investment (and waste) of scarce resources. Because these prices change quickly, regardless of production costs, resources are redirected to more urgently desired areas more quickly than would otherwise be the case. Thus rapidly changing gasoline prices are a blessing because they send a clear signal early in a supply disruption, before things become much worse.

Emergent Phenomena

Politicians and others are undoubtedly frustrated by the teachings of economics because they more often than not tell political leaders what they cannot or should not do, not what they can do to change reality. In a recent essay *Freeman* columnist Russell Roberts wrote of the human desire to control what he calls "emergent phenomena," which he defines as things that are the result of human action but *not subject to human design or control*. Such phenomena include language and market prices. Efforts to control emergent phenomena, Roberts writes, confuse engineering problems (which are subject to human design) with economic problems (which are not). "[T]he engineering way of thinking doesn't work with emergent phenomena. Trying to change emergent results is inherently more complex than building a bridge or expanding your kitchen or even putting a man on the moon. Understanding the challenge involved is to begin to answer the old question that asks why we can put a man on the moon but we can't eliminate poverty."[9]

Despite talk of inelastic markets for retail gasoline,

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higher fuel prices over the past two years have started to have their anticipated effect on both supply and demand. The world's largest oil producers have recently and significantly increased their spending on oil exploration in response to higher prices, while consumers have started to move away from SUVs and large trucks to more fuel-efficient autos.[10]

Left unregulated and unsubsidized, markets would lead human beings to cooperate and prosper in ways unimaginable by interventionist-minded government officials and politicians. And prices play a central role, acting as signals that help direct diverse and disconnected people into activities that serve other people's most urgently felt wants and needs. Entrepreneurs also play a critical role by directing scarce resources toward ends most valued by consumers. If an endeavor proves mistaken, an entrepreneur fails and tries something else. All the while, consumers are likewise seeking out the most "profitable" (in a psychic sense) goods and services they can find. Thus a free market is in a never-ending flux, constantly shifting resources from less-valued to more highly valued uses. This is not a process that can be improved on by political means.

Government officials may wish to magically or legally make gasoline more plentiful or less expensive, but they cannot change the forces of supply and demand. Indeed, their tampering only makes matters worse. The gas lines, shortages, and occasional violence that accompanied gasoline price caps in the 1970s should serve as an effective reminder. Politicians should heed the lessons of history and sound economics. To be sure, end all privileges for the oil companies, but leave gasoline prices alone.

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1. See Robert Higgs, *Crisis and Leviathan* (Oxford University Press: New York, Oxford, 1987).

2. In the words of University of Chicago economist Austan Goolsbee, "States tend to make their anti-gouging laws purposely vague, forbidding 'unconscionable profiteering' during a state of emergency or the like." "Pump It Up," *Slate*, September 7, 2005, www.slate.com/id/2125814/.

3. Nedra Pickler, "Bush: Rebuilding Must Address Inequality," Associated Press, September 16, 2005, www.newsmax.com/archives/articles/2005/9/16/134806.shtml.

4. "What *Not* to Do About Rising Energy Prices," *Research Reports*, American Institute for Economic Research, September 12, 2005.

5. Rob Bradley, "Gasoline Prices: Still Good News," Cato Institute Daily Dispatch, April 13, 2002, www.cato.org/dailys/04-13-02.html.

6. William Anderson, "Congress and Oil Prices: The Outrage Continues," Mises.org Daily Article, May 6, 2002, www.mises.org/story/951.

7. "High Pump-Price Fairy Tales," *Nationalreview.com*, June 3, 2005, www.nationalreview.com/nrof_comment/taylor_van_doren200506030857.asp.

8. Figures provided by the U.S. Energy Information Administration, Department of Energy, http://tonto.eia.doe.gov./oog/info/twip/twip.asp.

9. Russell Roberts, "The Reality of Markets," *Library of Economics and Liberty*, September 5, 2005, www.econlib.org/library/Columns/y2005/Robertsmarkets.html.

10. Carola Hoyos and Javier Blas in London, "Search for Oil Stepped up as Price Rises," *Financial Times*, September 12, 2005; Amy Lee and Brett Canton, "Gas Costs Stall Used Truck Sales," *Detroit News*, July 11, 2005.

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As Frank Chodorov Sees It

BY FRANK CHODOROV

John Stuart Mill, says Professor Russell Kirk in a recent article in the conservative *National Review*, is "dated." He was referring to the famous treatise *On Liberty*. The occasion for this dictum is the revival of interest in the treatise, by way of a couple of re-publications and the consequent appearance of critical articles.

When you say a literary work is "dated" you mean that either its ideas or the manner of their presentation are outmoded. In this case, the professor was referring to Mill's ideas, not his style, insisting that in the light of modern thought these were of little force or value. Since I was brought up on Mill, and always held that Mill was a pretty good thinker, I pulled down my copy of *On Liberty* and reread it, just to see whether I too am "dated."

Briefly, Mill held that a vigorous and healthy social order is one in which the individual is permitted to work out his destiny according to his capacity. . . . Political and social restraints on the individual, said Mill, tend to retard his development, and if carried far enough will induce an inclination toward servitude. Society, which is a collective of individuals and takes its character from them, will deteriorate accordingly.

This line of thought still touches a responsive chord in me and, therefore, I presume I am "dated." And so is everybody else who is convinced that a good society will be achieved when people are free to do pretty much as they please, provided they do not please to step on one another's toes. If you call yourself a libertarian or an individualist, whether you ever read *On Liberty* or not, you are in Mill's camp.

The deficiency of being "dated" is shared by many ideas that are rooted in the past and, if modernity is the test of value, ought to be discarded. For instance, there is the Decalogue, authored some six thousand years ago according to the Jewish calendar. This is definitely out of line with the "latest thing" in political science, which insists that it is quite proper and beneficial to steal from Peter and give to Paul. Very few up-to-the-minute professors maintain, with the Commandment, that private property enjoys divine sanction.

For another example of "dated" thought, I offer the Declaration of Independence. There may be a few philosophers in these nuclear times who accept the doctrine of inalienable rights, but the most forward-looking ones will tell you "there ain't no sech animule"; and if you call upon the Creator to bear witness for the doctrine, they will tell you condescendingly that you are woefully "dated."

So, the question whether Mill is "dated" resolves itself into another question: whether an idea has deteriorated in value simply because it contradicts "the latest thing." The new might be shinier, but is it intrinsically better?

As I said, the article appeared in a conservative journal—which brings up the question, just what is a conservative? I imagine that a conservative is one who wants to conserve something—maybe something that is "dated." At the time of Thomas Hobbes, in the seventeenth century, a conservative was one who did not want the "divine right" of kings to go out of fashion; in the nineteenth century, when Cobden and Bright were plugging for free trade, a conservative was for protectionism, and Prince Metternich was a conservative because he thought monarchism better than the republicanism then coming into vogue. But, what is a modern conservative? Some people who follow the libertarian

Frank Chodorov (1887–1966) was the editor of The Freeman *in 1955 and wrote a column when the magazine became the flagship of FEE. This article appeared in the April 1956 issue.*

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line of thought are pleased to use it to describe themselves. But, now we find a conservative paper giving its blessing to a repudiation of John Stuart Mill, from whom libertarianism derives much of its thinking.

International Wheat

America has no monopoly of the farm problem. . . . Every nation whose government undertakes to "help the farmer" is plagued with this problem. "Enlightened" governments everywhere are knee-deep in the business of succoring the "poor agriculturist," thereby making things worse for him and everybody else.

As this is written (on the birthday of George Washington who advised his fellow citizens against foreign entanglements) representatives of various nations, including our own, are assembled in Geneva debating whether or not to conclude a new International Wheat Agreement. They could readily solve this matter by dropping their respective interventions and allowing competition in the market to function as the equalizer of supply and demand. But the very fact that governments are assembled is evidence enough that controls will not be abandoned—not at the instigation of these controllers.

Meanwhile a group of atomic scientists, working under a grant from the government of the United States, are looking into the possibility of applying their discoveries to the improvement of agricultural production. Every agricultural school in the country, with subsidies from the government, is striving to increase the quantity and quality of the very commodities, the abundance of which—at fixed prices—constitutes an international headache.

All of this underlines the fact that whenever government undertakes to solve an economic problem, it simply creates other problems. This is because the laws of economics operate without regard to political "expediency."

As [Albert Jay] Nock observed in *Our Enemy the State:* "Every intervention by the State enables another, and this in turn another, and so on indefinitely; and the State stands ever ready and eager to make them, often on its own motion. . . ."

On Automobiles and Houses

The economic year 1956 was ushered in on two sour notes: the building boom is showing signs of leakage, the sales of automobiles are dropping. The pundits have come up with the verdict that the country is "saturated" with houses and automobiles; the consumers of these products are surfeited, and production has to be slowed down accordingly.

Perhaps their analysis is correct. But one cannot be sure that "overproduction" has set in until one runs a bargain sale. And then one finds that what is called overproduction is really over-pricing. For, if the glut on the market disappears when prices are lowered you have proof enough that the desire for these commodities has not yet been satiated, that at the higher prices some people had to go without. So, before we can say for a certainty that everybody has more housing space or more automobiles than he wants, we must consider the possibility and the consequence of a drop in prices.

To a buyer, of course, the price of an item means its cost to him. A seller also thinks of the price in terms of what it costs him to produce the item. And one of his largest items of cost is wages, the price that labor asks for its contribution. A decision that too many houses and automobiles have been produced might well mean, then, that wage demands by construction and automotive workers have exceeded what the consumer is willing to pay.

Taxes are the second largest cost of production. The multitudinous exactions of the government—federal and local—on the builder and his suppliers must be passed on to the would-be home owner or user. Likewise with the automobile. So a decision that there are too many buildings and too many automobiles may be only the reflection that taxes are too high on those particular items. . . .

Whatever the cause, . . . all these are areas of government interference with a free market. And if a slump occurs in housing or automobiles, the government must bear the responsibility. Political leaders may well be concerned that these chickens of their meddling seem about to come home to roost.

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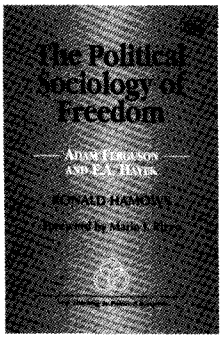
Book Reviews

The Political Sociology of Freedom: Adam Ferguson and F. A. Hayek

by Ronald Hamowy
Edward Elgar • 2005 • 265 pages • $110

Reviewed by Richard M. Ebeling



When I was a young economics major back in the 1970s, one of the standard arguments that many of my professors would hurl at me was: "Your ideal of free-market capitalism may have been all right 200 years ago, when society was a lot simpler, but in a society as complex as ours is today, such a policy of laissez faire just won't work. The complexity of modern life requires the government to interfere and regulate to see that everything works harmoniously, otherwise there would be chaos." Any reference I made to Adam Smith's "invisible hand" in *The Wealth of Nations* brought forth mockery and snide remarks.

The idea that a complex social order can arise and function without a human creator who designs and guides it often seems counterintuitive to our everyday experience. All that we consume shows signs of human planning and human action. The farmers plant the crops and bring them to harvest. The manufacturers design and oversee the production processes that bring all desired goods and services to market. All works of art and literature are the result of creative minds that put paint on canvas or words on a page.

Surely, it is said, there must an overarching design to fit all those individual plans into a society-wide coordinated pattern, just as the pieces of a jigsaw puzzle fit properly together. In the history of ideas, there have been two groups of thinkers who not only challenged that presumption, but who also showed how social order evolves and coordinates the actions of multitudes of people, without a planner imposing a design on everyone: the Scottish moral philosophers and the Austrian economists.

Ronald Hamowy offers a fairly detailed exposition of many of their ideas in *The Political Sociology of Freedom*. In this series of essays Hamowy traces the development of a theory of spontaneous social order in the works of Bernard Mandeville, David Hume, Adam Smith, Adam Ferguson, and a number of other writers of the eighteenth century. Their premise was that if man and society are to be properly studied and understood, we must use our reason and the historical record to find out what is the actual nature of man and how society's institutions actually come into existence.

Their conclusion was that man is a frail and imperfect creature, who applies his reasoning to solve problems, but who is also influenced by his passions. Man's knowledge is far from perfect about his past and current circumstances, and especially weak about what the future might hold. While capable of cruel and violent acts, man's nature also contains a spirit of benevolence based on his desire and need for the company of others. He is far from the hyper-rationalistic "economic man" that critics of the market later tried to portray him as.

What their study of history demonstrated was that none of the institutions and social norms of interpersonal conduct and commerce had been introduced by some great and all-knowing philosopher king; nor had their development and change over the centuries been anticipated or even thought about by those whose actions brought them into existence. (As the Austrian economist Ludwig von Mises once expressed it, "History is made by men. . . . But the historical process is not designed by individuals . . . . The Pilgrim Fathers did not plan to found the United States.")

Instead, the Scottish thinkers argued that language, custom, tradition, law, market rules of conduct and association, and the moral codes of society are the cumulative outcomes of multitudes of people acting and interacting over many generations, resulting in the institutionalized patterns and structures within which men live. Society's institutions change (usually slowly) over time, as men discover ways to improve their circumstances.

These ideas were captured in what are some of the most famous passages in the works of the Scottish thinkers. For example, Adam Ferguson: "Every step and every movement of the multitude, even in what are termed enlightened ages, are made with equal blindness to the future; and nations stumble upon establishments

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[institutions], which are indeed the result of human action, but not the execution of any human design."

Or Adam Smith: In the market economy, the individual "neither intends to promote the public interest, nor knows how much he is promoting it. . . . He is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was not part of it."

Hamowy shows that those ideas were a liberating force that freed men from the notion that only the king or a strong political authority could assure order in society. But he also shows that this theory could easily be turned around and used by "conservative" elements who, appealing to custom and tradition, want no significant change to the existing order.

The Austrian economists, beginning with the school's founder, Carl Menger, have also emphasized the nature and superiority of spontaneous social orders over various systems of government planning and control. That was especially the case with F.A. Hayek, who developed this theme in *The Constitution of Liberty* and *Law, Legislation and Liberty*.

Ronald Hamowy studied under Hayek in the 1960s at the University of Chicago. In the essays devoted to Hayek he combines a sincere appreciation and respect for Hayek's important contributions to the theory of spontaneous order, while challenging some of his master's thinking, particularly on the meaning of "the rule of law" and the nature of "coercion." He defends Hayek against the totally misplaced charge of anti-Semitism, made a few years ago by Melvin Reder in the pages of the *History of Political Economy*. He also discusses the limits of Hayek's own conception of a political order for a free society.

Hamowy draws a highly complimentary and moving portrait of Hayek, as a scholar, teacher, and mentor. In the 1970s, when I was in my twenties and shortly after he had won the Nobel Prize in economics, I had the good fortune to spend most of two summers in Hayek's company as a research fellow at the Institute for Humane Studies. He exemplified in all ways the highest learning, kindness, and patience—even when confronted by a brash and know-it-all young man like myself who was determined to "set Hayek right." He represented the finest ideal of what one thinks a Nobel laureate should be.

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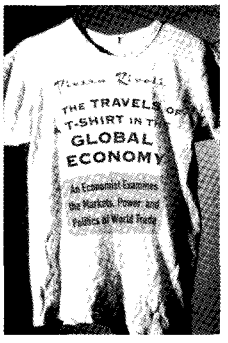
The Travels of a T-Shirt in the Global Economy: An Economist Examines the Markets, Power, and Politics of World Trade

by Pietra Rivoli

John Wiley & Sons, Inc. • 2005 • 254 pages • $29.95

Reviewed by Tom Welch



With the increasing trade of goods and services across national borders and the erosion of command economies, the enemies of the market have now become "anti-globalists." To them, "globalization"—specifically, international trade and investment—is responsible for poverty and deteriorating living conditions, especially in underdeveloped countries.

Prompted by a protester's assertion about the squalid conditions in which garments are manufactured, Georgetown University business professor Pietra Rivoli set out to find the truth. The result is *The Travels of a T-Shirt in the Global Economy*, in which she traces the provenance of a single commodity: a six-dollar T-shirt. From a Texas cotton field to a textile factory in China, through the nets of Washington bureaucrats to a Florida manufacturer, she follows the product's life cycle, concluding with its probable fate in an African used-clothing market. In the process, she explores the history of trade in textiles and clothing from the Industrial Revolution to today.

By providing a proper historical perspective, Rivoli underlines the benefits of trade for even the poorest participants. However unpleasant conditions in textile factories have been throughout the ages, workers have willingly sought employment there as an escape from desperate rural poverty. In country after country, the textile industry has provided betterment for workers and their descendants. Especially poignant is Rivoli's litany of former mill towns across the globe that have pro-

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gressed to the forefront of more modern industries. Since a large portion of the workforce in the industry has historically been female, textile manufacturing has also been a driving force in the increasing autonomy of women in many societies. As such, Rivoli calls "nonsensical" the anti-globalists' efforts to stop the so-called "race to the bottom." She pointedly asks the protesters whom they would wish to condemn to generations of rural poverty.

Another theme of Rivoli's work is that there is little trade that is truly free. Her narrative is filled with stories of attempts to manipulate the market through the power of government. From nineteenth-century slavery to today's taxpayer subsidies and crop insurance, American cotton growers have employed a variety of means to escape the vagaries of the labor market. China uses a system of internal restrictions on freedom of movement to achieve a similar end in the modern textile industry.

Perhaps the most blatant example of protectionism Rivoli encounters is the decades-old, ever-changing, and byzantine regime of textile import quotas imposed by the United States at the urging of a vocal lobby of manufacturers and labor unions. While the regime merely delays domestic textile job losses, it does create employment for armies of bureaucrats worldwide who administer the quotas. Meanwhile, it makes clothing more expensive for consumers, stifles innovation in American textile manufacturing, increases costs for downstream industries, and enriches foreign investors who trade in quotas as derivative instruments. It also taints U.S. diplomatic efforts for freer trade with hypocrisy. Rivoli correctly identifies the mechanism behind the perpetuation of such inefficiencies: the costs, though in the billions of dollars, are widely spread, while the benefits are concentrated.

She also correctly states that the plight of underdeveloped countries is primarily a political issue, not a result of the "cruelty of market forces." Indeed, the little-publicized trade in used clothing has given ordinary people a shot at improving their situation, notably in countries that have long suffered from the effects of statist economies. Sadly, Rivoli only touches briefly on the crux of the political issue: insufficient rule of law and protection of property rights in many countries.

Even though Rivoli draws the conclusion that the "moral case for trade . . . is even more compelling . . . than the economic case," she does not advocate laissez faire. In fact, she claims to have become more sympathetic to the anti-globalists over the course of her study. The efforts of reformers throughout history, she says, have improved the health and safety of industrial workers, often through government fiat. She gives only partial credit to the prosperity caused by industrialization itself, claiming that the "market alone" could not produce such results. Despite her economic expertise, she does not discuss the contribution minimum-wage laws and the like make to unemployment. Nor does she acknowledge that while child labor would be cruel and unnecessary in today's cotton and textile industries, it could mean the difference between life and death—or a life of prostitution—in less-developed countries, as it did in the West generations ago.

Rivoli admits that her work is anecdotal and unscientific. That aspect could have been one of the narrative's strengths: it is free of jargon, although it sometimes bogs down in minutiae. Add to that its "hook"—most everyone can identify with T-shirts—and it is appealing and accessible to those unfamiliar with basic economics. Unfortunately, her conclusions may be too half-hearted to change any minds.

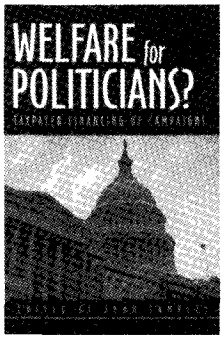
Tom Welch is a freelance writer in Atlanta.

Welfare for Politicians?: Taxpayer Financing of Campaigns

Edited by John Samples

Cato Institute • 2005 • 160 pages • $18.95 hardcover; $12.95 paperback

Reviewed by Bradley A. Smith



Imagine a government policy that funds an important civic function, but is not mandatory; which is paid for not through taxes, but through voluntary contributions; and which adds nothing to the government debt. Sound good? This is a description of the United States' traditional system of privately funded political campaigns. And the best is yet to come: the

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cost falls almost entirely on the wealthiest Americans.

Oddly enough, it is precisely this last factor—the fact that the dissemination of political information in political campaigns is paid almost entirely by voluntary contributions from the wealthiest Americans—that spurs constant calls for "public" financing of political campaigns. According to the "reformers" who promote what are more properly called "government-funded" or "tax-funded" campaigns, the system of voluntary campaign funding results in both political inequality and government corruption. Officeholders ignore the common good to bend to the will of their contributors, and contributors exercise unequal—or "undue"—influence over public policy.

Nevertheless, when given a choice, Americans have shown little desire to have taxpayer money given to candidates. Though it does not raise tax liability, barely one in ten Americans chooses to direct $3 of his federal income tax to the Presidential Campaign Fund, the country's longest-running experiment with tax-funded campaigns. In 2002 the Massachusetts legislature placed an initiative before voters to have the government fund campaigns. Voters in that "liberal" state defeated the measure by the largest margin of any ballot initiative in its history.

Supporters of tax-funded campaigns, however, are well-financed—by some estimates, over $200 million has been spent by groups dedicated to lobbying for "campaign finance reform" since 1995—and persistent. By promoting such ballot initiatives as "clean election" laws, they have succeeded in passing government-financing plans in Arizona, Vermont, and Maine, and hope to take their proposals nationwide. With rare exceptions, there has been no organized resistance to these efforts, and so pro-reform arguments tend to dominate the debate.

Welfare for Politicians? is a small but significant effort to redress that imbalance. Editor John Samples, director of the Center for Representative Government at the Cato Institute, and 12 other contributors take apart the arguments for taxpayer-financed campaigns. Or perhaps I should say ten other contributors—two authors, Paul Taylor and Michael J. Malbin—argue, respectively, in favor of "free" television broadcast time and higher government subsidies to campaigns. In other words, this selection of essays is by no means balanced. But it is always fair, and it makes for a devastating critique of "reform."

For many, it seems intuitively obvious that privately funded campaigns lead to inequality and corruption. But the evidence tends to show that the opposite is true: a system without limits on private contributions and spending tends to be more open to change and to new ideas, more responsive to voters, and less open to political manipulation. Thus the most powerful essays in this collection are two that succinctly marshal the growing body of evidence supporting privately funded campaigns as the fairest, most open system of funding. "Why Subsidize the Soapbox?" by Samples and Adam Thierer, demolishes the "false assumptions behind free [television] time." "Reform without Reason: The Scientific Method and Campaign Finance," by political scientists Jeffrey Milyo and David Primo, begins by noting that "the public debate over campaign finance reform rarely—if ever—makes use of serious scholarly research," and after summarizing that research, concludes that "conventional wisdom greatly exaggerates the role of money in American politics."

Other essays similarly demonstrate the failure of government-funded campaign systems. Chip Mellor of the Institute for Justice and Robert Franciosi of the Goldwater Institute demonstrate the failure of "clean election" laws to achieve their objectives in Arizona and show how the law tends to bias elections in favor of supporters of big government. Patrick Basham and Martin Zelder reach similar conclusions after reviewing the results of Maine's "clean elections" experiment. And Samples demonstrates how taxpayer funding of presidential elections has also failed to meet its stated goals.

What makes these essays impressive is their cumulative power. The authors avoid hot rhetoric in favor of an accessible but relentless recital of actual data. They do not argue that the goals of tax-financed campaigns are wrong, but rather that such campaigns uniformly fail to achieve those goals and in the process damage our democracy. And they conclude that because tax-funding proposals are based on a faulty understanding of how democracy works and the role money plays in democracy, they are destined to fail.

Bradley Smith (bsmith@law.capital.edu) is professor of law at Capital University and former chairman of the Federal Election Commission.

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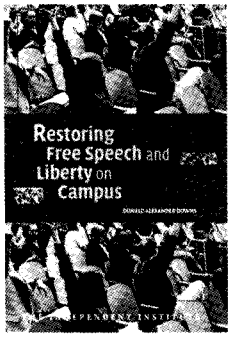
Restoring Free Speech and Liberty on Campus

by Donald Alexander Downs
Independent Institute and Cambridge University Press
• 2005 • 279 pages • $25.00

Reviewed by George C. Leef



American colleges and universities are hothouses of hypocrisy, and the principal exhibit is that while their spokesmen talk endlessly about their commitment to openness, tolerance, critical thinking, diversity, and so on, many of them have adopted policies designed to stifle the expression of unpopular sentiments and empower certain groups to punish others for having the temerity to speak their minds.

In *Restoring Free Speech and Liberty on Campus,* Donald Downs, professor of political science at the University of Wisconsin, gives us a history of the rise and decline (fall would be putting it too strongly) of the movement against free speech on American campuses. It's more than just a history, though. Downs also makes a strong philosophical case against restrictions on free speech. In both efforts, he succeeds wonderfully—the history of speech codes is carefully chronicled, and the reader is left with no doubt that their institution was a stupendous folly.

What makes Downs's book so compelling is that as a faculty member he was in the thick of the battle over the speech code that was adopted at the University of Wisconsin. Not only that, but he initially *supported* the code, believing that the university administration could "strike a reasonable balance" between freedom of expression and speech that might cause "trauma and moral harm."

That view did not survive long once Downs came to see how speech codes actually worked. He writes, "By the early 1990s it was becoming evident how the speech codes and the ideologies that they represented had hampered intellectual honesty. Many colleagues and students related that they felt as if they were walking on eggshells in class when talking about racially and sexually sensitive topics—even though these were among the most important social and political topics of our time."

Far from increasing civility on campus—the justification ritually advanced in favor of codes—Downs could see that they were being aggressively used to silence and harass people who challenged the ideas that are dear to the multiculturalist worldview. The marketplace of ideas was in danger of being replaced with a timid silence born of the fear that saying the wrong thing could at any time land one in a nightmare of Inquisition-like procedures. The supposed shield for civility was in fact being wielded as a sword against students and professors who said anything that bothered members of the "protected" groups.

The first part of the book is an analysis of the speech-code phenomenon. Downs locates the roots of the movement in the illiberal instincts of many advocates of "multiculturalism," who want to criminalize any difference of opinion with them. Although few had read Herbert Marcuse, the spirit of his book *Repressive Tolerance* animates the speech-code enthusiasts. Marcuse argued that free speech was actually *repressive* because it allegedly put status quo ideas in a position of "dominance" and suppressed the voices of dissent. His solution was to suppress ideas critical of his radical Marxist notions.

Central to the project of instituting and enforcing speech codes was (and is) the ideology of victimhood, the idea that groups which were arguably treated unfairly in the past hold special rights in the present, rights that protect them against "hurtful" speech. Downs argues that the effort to redress historical wrongs through the restriction of free speech merely "infantilizes" the supposed beneficiaries by rendering them incapable of handling open discourse.

The second part of the book consists of four case studies: Columbia's sexual-misconduct policy, the anti-free speech movement at the University of California, the speech code at the University of Pennsylvania culminating in the absurd "water buffalo" incident, and the rise and fall of the speech codes at the University of Wisconsin. Each study introduces the reader to individuals who participated in the battles and their reasons for having done so. The stories are replete with real victims (students and professors who were pilloried for having offended in an innocent and trivial way some "protect-

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ed" person or group), real villains (the speech-code aggressors and administrators who went along with their demands), and real heroes (people who fought the blatant unfairness of the speech-code procedures).

One of the heroes is Professor Alan Kors, who single-handedly took on the administration at Penn to defend a student facing disciplinary action for making an allegedly "insensitive" remark to students who were distracting him from his studies. That episode launched Kors and attorney Harvey Silverglate on a mission to expose infringements on free speech. Their book *The Shadow University* (reviewed in *The Freeman*) helped to make free speech on campus a hot issue.

Downs sums his book up beautifully with a quotation from Shira Diner, the Wisconsin valedictorian in 1997: "For the past four years we have been cheated out of the education which this University should be providing because of a speech code imposed on the faculty which restricts what they can and cannot say in our classes. We have a right to be challenged with ideas that are not easy and may hurt us. We deserve nothing less if we expect to find the truth."

George Leef (georgeleef@aol.com) is book review editor of The Freeman.

Capital Letters

Epstein v. Rogers

In "Popular Insurrection on Property Rights" (November 2005), Richard Epstein references Will Rogers as saying that he "never found a government spending program he did not like."

Is this the same Will Rogers whom I've always attributed with quotes such as "Thank God we don't get all the government we pay for." Or, "This country has gotten where it is in spite of politics; not because of it."

One of us has apparently missed the boat here . . . is it me?

—BILL ALLARD
Tacoma, WA

Richard Epstein replies:

Bill Allard is right to say "Gotcha" in defense of the great Will Rogers. Rogers did say that he never met a man he didn't like, and I meant to say that Justice Stevens never found a taking that he didn't like either. But some allusions get too complicated for their own good. I certainly did not intend to make Rogers into a defender of big government when there is ample evidence to the contrary. So Rogers is fully exonerated of all charges against him. It is a different story for Justice Stevens.

Address your letters to: *The Freeman*, FEE, 30 S. Broadway, Irvington-on-Hudson, NY 10533; e-mail: freeman@fee.org; fax: 914-591-8910.

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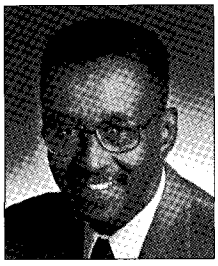

Economics for the Citizen, Part IV

BY WALTER E. WILLIAMS

There's a reggae song that advises, "If you want to be happy for the rest of your life, never make a pretty woman your wife." Mechanics have been accused of charging women higher prices for emergency road repairs. Airlines charge business travelers higher prices than tourists. Car-rental companies and hotels often charge cheaper rates on weekends. Transportation companies often give senior-citizen and student discounts. Prostitutes charge servicemen higher prices than their indigenous clientele. Gasoline stations on interstate highways charge higher prices than those off the interstate. What are we to make of all of this discrimination? Should somebody notify the U.S. attorney general?

The fact that sellers charge people different prices for what often appear to be similar products is related to a concept known as elasticity of demand, but we won't get bogged down with economic jargon. Think about substitutes. Take the reggae song's advice about not taking a pretty woman as a wife. Pretty women are desired and sought after by many men. An attractive woman has many substitutes for you, and as such, she can place many demands on you. A homely woman has far fewer substitutes for you and can less easily replace you. Hence, she might be nicer to you, making what economists call "compensating differences."

It's all a matter of substitutes for the good or service in question and the buyer's willingness to pay a higher price. Business travelers have less flexibility in their air-travel choices than tourists. Women generally see themselves as having fewer alternatives for emergency auto repairs. A man might have more knowledge about making the repair or be more willing to risk hitchhiking or walking. A prostitute might see a sailor on shore leave as having fewer substitutes, not to mention pent-up demand, for her services than the area's residents. Motorists traveling from city to city are less likely to have information about cheaper gasoline prices than local residents.

The fact that sellers charge people different prices for what often appear to be similar products is related to a concept known as elasticity of demand, but we won't get bogged down with economic jargon.

Politicians seem to ignore the idea of substitutability, namely, when the price of something changes people respond by seeking cheaper substitutes. New York City raised cigarette taxes, thereby making a pack of cigarettes $7. What happened? A flourishing cigarette black market emerged.

In 1990, when Congress imposed a luxury tax on yachts, private airplanes, and expensive automobiles, Senator Ted Kennedy and then-Senate Majority Leader George Mitchell crowed publicly about how the rich would finally be paying their fair share of taxes. But yacht retailers reported a 77 percent drop in sales, and boat builders laid off an estimated 25,000 workers. What happened? Kennedy and Mitchell simply assumed that the rich would behave the same way after the imposition of the luxury tax as they did before and the only difference would be more money in government coffers. They had a zero-elasticity vision of the world, namely, that people do not respond to price changes. People always respond, and the only debatable issue is how much and over what period.

This elasticity concept is not restricted to what are

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generally seen as economic matters; it applies to virtually all human behavior. When a parent asks his child, "How many of your privileges must I take away to get you to behave?" that's really an elasticity question. In other words, how great must the punishment be for the child to misbehave less? It's easy to see how the elasticity concept applies to law enforcement as well. What must be done to the certainty of prosecution and punishment to get criminals to commit less crime?

Economic theory is broadly applicable. However, a society's property-rights structure influences how the theory will manifest itself. It's the same with the theory of gravity. While it too is broadly applicable, attaching a parachute to a falling object affects how the law of gravity manifests itself. The parachute doesn't nullify the law of gravity. Likewise, the property-rights structure doesn't nullify the laws of demand and supply.

Property rights refer to who has exclusive authority to determine how a resource is used. Property rights are said to be communal when government owns and determines the use of a resource. They are private when it's an individual who owns it and has the exclusive right to determine how it is used. Private property rights also confer on the owner the right to keep, acquire, sell, and exclude from use property deemed his.

Property rights might be well-defined or ill-defined. They might be cheaply enforceable or costly to enforce. These and other factors play a significant role in the outcomes we observe. Let's look at a few of them.

A homeowner has a greater stake in the house's future value than a renter. Even though he won't be around 50 or 100 years from now, its future housing services figure into its current selling price. Thus homeowners tend to have a greater concern for the care and maintenance of a house than a renter. One of the ways homeowners get renters to share some of the interests of owners is to require security deposits.

Here's a property-rights test question. Which economic entity is more likely to pay greater attention to the wishes of its clientele and seek the most efficient methods of production? Is it an entity whose decision-makers are allowed to keep for themselves the monetary gain from pleasing the clientele and seeking efficient production methods, or is it an entity whose decision-makers have no claim to those monetary rewards? If you said it is the former, a for-profit entity, go to the head of the class.

While there are systemic differences between for-profit and nonprofit entities, decision-makers in both try to maximize returns. A decision-maker for a nonprofit will more likely seek in-kind gains, such as plush carpets, leisurely work hours, long vacations, and clientele favoritism. Why? Unlike his for-profit counterpart, the monetary gains from efficient behavior are not his property. Also, since a nonprofit decision-maker can't capture for himself the gains and doesn't suffer losses, there's reduced pressure to please clientele and seek least-cost production methods.

Tax-Wrought Changes

You say, "Professor Williams, for-profit entities sometimes have plush carpets, have juicy expense accounts and behave in ways not unlike nonprofits." You're right, and again, it's a property-rights issue. Taxes change the property-rights structure of earnings. If there's a tax on profits, then taking profits in monetary form becomes more costly. It becomes relatively less costly to take some of the gains in nonmonetary forms.

It's not just managers who behave this way. Say you're on a business trip. Under which scenario would you more likely stay at a $50-a-night hotel and eat at Burger King? The first scenario is where your employer gives you $1,000 and tells you to keep what's left over. The second is where he tells you to turn in an itemized list of your expenses and he'll reimburse you up to $1,000. In the first case, you capture for yourself the gains from finding the cheapest way of conducting the trip, and in the second, you don't.

These examples are merely the tip of the effect that property rights have on resource allocation. It's one of the most important topics in the relatively new discipline of law and economics.

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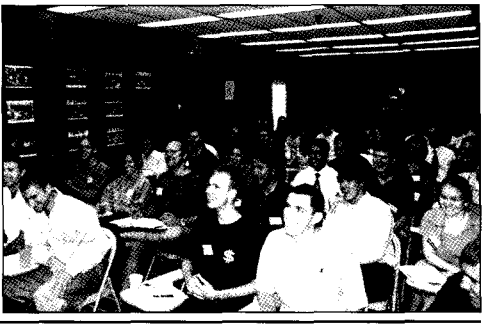

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"Most city diversity is the creation of incredible numbers of different people and different private organizations, with vastly differing ideas and purposes, planning and contriving outside the framework of public action. The main responsibility of city planning and design should be to develop—insofar as public policy and action can do so—cities that are congenial places for this great range of unofficial plans, ideas, and opportunities to flourish."

— Jane Jacobs

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